

**The big buzz**  
The genetics of nicotine  
Page 8



**The Yen**  
Looking into the sun  
Page 4

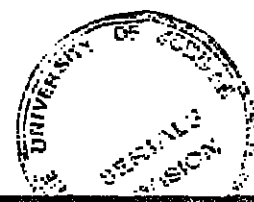


**Closer than Switzerland**  
Latvia's dream threatened by politics  
Page 15



**Bonds**  
Early days for the bear market  
Page 19

# FINANCIAL TIMES



Europe's Business Newspaper

THURSDAY JUNE 23 1994

D85

## Europe backs law to set up elected works councils

All European Union member states except the UK agreed on a law to set up elected works councils in up to 1,500 large trans-European companies. The councils are intended to ensure that workers' representatives in companies employing more than 1,000 people are consulted and informed on cross-border business decisions that affect them. Page 18

**France ready to send troops to Rwanda:** France said it could begin sending troops to Rwanda today after winning United Nations approval for the mission. Page 4

**Nasdaq plans European market:** Nasdaq, the US screen-based exchange which is the world's second-largest stock market by turnover, is holding talks with potential partners about creating a pan-European exchange for small and medium-sized companies. Page 19; Lex, Page 18

**Metallgesellschaft, the heavily indebted German metals, mining and industrial group, has entered negotiations to sell its headquarters site in the centre of Frankfurt. The site could have a market value of DM750m (\$460m). Page 19**

**Imperial Chemical Industries, the UK bulk chemicals company demerged from the old ICI a year ago, has underlined its break with the past by appointing as its new chief executive, Charles Miller Smith, an accountant from the Anglo-Dutch consumer products group Unilever. Page 19; Lex, Page 18**

**Foster's, the Australian brewery group, is joining forces with Wheelock, the Hong Kong-based trading house, to make a push into the brewing business in China. Page 19**

**Kozyrev urges slow approach for Nato:** Andrei Kozyrev (left), Russia's foreign minister, urged Nato not to risk provoking public opinion in his country by rushing to welcome east European countries as members of the alliance. The appeal was made at representatives of Nato's 16 member states gathered to honour Russia as the 21st, and most important, member of Partnership for Peace, the military co-operation programme. Page 18; Russia on course, Page 3



**Guinness scores at World Cup:** Ireland's success in the World Cup is creating a windfall for Guinness, the London-based brewer, which has seen stout sales skyrocket on both sides of the Atlantic. Page 18

**Optimism over Korean summit:** South Korean officials expressed optimism that an unprecedented summit meeting with North Korea would take place, after Pyongyang agreed to discuss arrangements. Page 4

**Hata coalition starts talks:** Japan's minority government of Tsutomu Hata started talks with the opposition Social Democratic party to save the ruling coalition from imminent defeat. Page 4

**Italian milk row threatens summit:** The row over the way Italy exceeds its European Union milk production quota threatens to disrupt the Corfu summit of EU leaders which begins tomorrow. Page 2

**Samper denies drug link:** Colombia's president-elect, Ernesto Samper, vehemently denied accusations that his election campaign had benefited from contributions by the country's Cali cocaine cartel. Page 6

**US Democrats attack religious rights:** Democratic party organisers, searching for ways of heading off defeats in November's US congressional elections, have embarked on a strategy of attacking the rival Republican party as a captive of radical, religious right wingers. Page 6

**Rail strike hits France:** A strike against job cuts badly disrupted French train services and fewer than half the trains were running in much of the country. Row over government role in UK rail strike, Page 10

**Second shock defeat at Wimbledon:** In another upset at Wimbledon, No. 2 seed Michael Stich was beaten by Bryan Shelton in straight sets. Stich, men's singles champion in 1991, joined fellow German Steffi Graf, the women's top seed, who was also beaten in the first round by an unseeded American.

STOCK MARKET INDICES		STERLING	
FT-SE 100	2868.4 (+30.2)	New York Composite	1,831
Yield	4.1%	London	1,539.5 (1,537.4)
FT-SE Europe 100	1,322.8 (+19.52)	DM	2,457.9 (2,461.2)
FT-SE-AAP Share	1,485.05 (+0.5%)	FF	8,411.3 (8,412.9)
Nikkei	20,581.22 (-231.84)	Sfr	2,058.4 (2,074.7)
New York Composite	1,831.0 (+18.39)	Y	154.027 (155.123)
Dow Jones Ind. Ave	5,726.36 (+18.39)	£ Index	79.0 (79.0)
S&P Composite	453.39 (+2.04)		

US LUNCHTIME PRICES		DOLLAR	
Federal Funds	4.75%	New York Composite	1,831
3-mo Treas. Bids. Yld	4.25%	London	1,539.5
Long Bond	5.62%	DM	2,457.9
Yield	7.35%	FF	8,411.3

LONDON MONEY		NORTH SEA OIL (Average)	
3-mo Interbank	5.25% (same)	Brent 15-day (Aug)	\$17.48 (17.39)
Libor 3m 91st rate	Jan 101.4, Jun 99.4	Oil	10.40

NORTH SEA OIL (Average)		Yield	
Brent 15-day (Aug)	\$17.48 (17.39)	FT-SE 100	2868.4 (+30.2)
Oil	10.40	Yield	4.1%

Yield		New York Composite	
FT-SE 100	2868.4 (+30.2)	New York Composite	1,831
Yield	4.1%	London	1,539.5

New York Composite		Tokyo Close	
New York Composite	1,831	Tokyo Close	10,000
London	1,539.5		

Tokyo Close		Yield	
Tokyo Close	10,000	FT-SE 100	2868.4 (+30.2)
		Yield	4.1%

US currency steady ■ Investors urged to concentrate on 'strong fundamentals'

## Clinton defiant over dollar's fall

By Michael Prowse in Washington and Philip Coggan in London

President Bill Clinton yesterday responded defiantly to downward pressure on the dollar in global financial markets, urging investors to pay more attention to strong US economic fundamentals.

"This is the first time in 30 years that we have had growth in the economy with no inflation led by investment that will create jobs," he said.

Mr Clinton's comments were reinforced by upbeat comments on the US economy by Mr Alan Greenspan, the Federal Reserve

chairman, and Mr Lloyd Bentsen, the US Treasury Secretary. Their concerted remarks followed overnight intervention by the Bank of Japan and combined to help the dollar and stock and bond markets.

But in Tokyo, Mr Hirohisa Fujii, Japan's finance minister warned that "rapid fluctuations" in exchange rates "would do harm not only to the Japanese economy but to the world economy". The Japanese government had called an emergency cabinet meeting to discuss the yen's renewed strength.

In London, the dollar closed at ¥101.225 and DM1.609, having briefly dipped below DM1.59 and

Anxious Japanese fearful of yen's strength Page 4  
Greenspan seeks to allay inflation fear Page 6  
Editorial Comment Page 17

Samuel Brittan Page 17  
Lex Page 18  
Bonds Pages 19 and 23  
Currencies and world stocks Section II

Y100 - a post-1945 low - earlier this week. In New York the dollar was trading at ¥100.7 and DM1.602 in the early afternoon, while the Dow Jones industrial average was up 19.19 at 3,727.35, its first advance in three sessions.

down to 7.46. Mr Clinton gave no sign of wanting to change domestic policies in response to external financial pressures: "We'll just have to keep working on our fundamentals and know that in the end the markets will have to respond to the economic realities," he said.

unemployment rate has fallen to 6 per cent and the annual inflation rate is less than 3 per cent. Most countries are still struggling to emerge from recession. Behind Mr Clinton's words is the confidence that the US economy is less vulnerable to damage from currency volatility than most countries because the share of trade in gross domestic product remains low.

Mr Greenspan said many investors were too pessimistic about the outlook for US inflation. Long bond yields were "higher than they should be" because they embodied an excessive "inflation premium". European bond and stock markets took some comfort from the

Continued on Page 18

Package aims to balance social justice and strong growth

## South Africa imposes wealth tax in budget

By Patti Waldmeir and Michael Holman in Cape Town

South Africa's new government yesterday presented its first budget, a cautious document demonstrating a commitment to fiscal and financial discipline while attempting to meet the needs of the poor.

The budget was the first real test of the economic policy of the multi-party government of national unity which took power just six weeks ago. It was widely welcomed by investors, who approved of its restraint on spending.

Mr Derek Keys, finance minister, who presented the budget to parliament in Cape Town, said his aim was to have "the best of both worlds" - "social justice and aggressive growth".

It was a difficult balancing act, achieved in part by imposing what amounts to a wealth tax to cover the costs of transition - in particular, the expense of integrating guerrilla armies into the South African Defence Force and of excess spending on April's all-race elections.

The one-off tax will primarily affect white taxpayers and white-owned companies and is levied at 5 per cent on annual incomes above R50,000 (\$13,700).

If white taxpayers received a shock, poorer blacks will be no better pleased. Exercise on cigarettes was raised by 25 per cent and on some beers by as much as 33 per cent.

Analysis Page 4  
Editorial Comment and Observer Page 17  
World stocks Section II

The extra revenue will make it possible to reduce last year's budget deficit of 6.9 per cent of gross domestic product to 6.6 per cent in the year to March 1995.

Government spending will rise only marginally in real terms, in spite of R2.5bn spending on President Nelson Mandela's "reconstruction and development" programme, a plan to build houses and provide health care and education denied to blacks under apartheid.

That spending will be funded entirely from savings in other budgetary areas. Government spending on reconstruction is due to rise to R5bn next year, R10bn the following year, R10bn and R12.5bn in subsequent years.

Chief Mangosuthu Buthelezi, leader of the Inkatha Freedom Party and a cabinet member of the government of national unity, said the budget "could not have been better". Johannesburg financial markets closed little changed.

Mr Keys defended the wealth tax, which is likely to be the most controversial measure of his budget. "We think that every income earner in this country can be profoundly grateful that our transition has gone so very well."



South African finance minister Derek Keys on his way to parliament in Cape Town to present his budget. He said his aim was to have "the best of both worlds" - social justice and aggressive growth. The budget was widely welcomed by investors, who approved of its restraint on spending. Picture: Ashley Ashwood

## AT&T to form alliance with European telecoms venture

By Andrew Adonis in London

AT&T, the largest US telecommunications operator, will today announce an alliance with Unisource, the joint venture between the Dutch, Swedish and Swiss national telecoms groups.

The deal is the third and potentially most far-reaching of the alliances between US and European telecoms groups forged in the last year.

Unisource will become the European arm of Worldsource, AT&T's international venture launched last year to provide one-stop telecoms services for multinationals. AT&T has enlisted several Asia-Pacific operators for Worldsource, but until now lacked a European partner.

Last week the state telecoms operators of France and Germany signed a \$4.2bn alliance with Sprint, the third largest US long-distance operator.

At the same time, British Telecommunications gained final US

regulatory approval for its \$5.3bn alliance with MCI, the second largest US operator.

All three alliances are geared to providing one-stop telecoms services to multinationals, a market that is expected to grow rapidly with the opening of European services to competition.

An industry source said: "Last week's Sprint deal forced AT&T to stop dithering. It believes it is in danger of missing the European boat entirely."

The alliance between AT&T and Unisource is expected to be far looser than the tie-ups between the other two US-European groups. Unlike MCI and Sprint, AT&T is far larger than its European partners, and the deal is not expected to involve any exchange of cash or equity. It may not be exclusive, although Unisource will agree to market AT&T-branded services in Europe.

For AT&T, the deal follows a year of painful negotiations to find a European partner. Until

late last year the company was negotiating with Deutsche Telekom and France Telecom. But problems about the shape of such an alliance, and fears of regulatory barriers preventing a deal between three of the world's four largest operators, are believed to have scuppered the talks.

Unisource has made a significant impact in the corporate market since it was established a year ago. Earlier this year it bid successfully in partnership with AT&T for potentially Europe's largest corporate telecoms contract: to provide facilities for more than 30 European multinational companies.

Telefonica, the semi-private Spanish national operator, is an associate member of Unisource.

The industry source said: "The prospect of Telefonica coming in made Unisource far more attractive to AT&T. They couldn't find Holland or Switzerland on the map."

World stocks, Section II

CONTENTS		FT World Activities	
News	2,5	Weather	18
European News	2,5	Law	18
International News	4	Competition	28
American News	6	Leaders Page	17
World Trade News	5	Letters	16
World Cup	8	Management	14
UK News	10,11	Observer	17
People	12	Technology	12
Int. Economic Indicators	2	Arts	15
		FT World Activities	40
		Foreign Exchanges	36
		Gold Markets	28
		Equity Options	40
		Int. Bond Markets	29
		Managed Funds	30-36
		Money Markets	36
		Recent Issues	40
		Share Information	30,31
		Technical Options	40
		London SE	28
		Wall Street	37-40
		Bourses	37,40
		Barney	
		■ Korea	
		(Reports Section)	

## GE replaces top man at troubled Kidder Peabody

By Richard Waters in New York

General Electric yesterday replaced Mr Michael Carpenter as chairman and chief executive of Kidder Peabody, its troubled securities subsidiary, in a move intended to shore up sagging confidence in the firm on Wall Street.

Mr Dennis Dammerman, GE's finance director, has taken over full-time management of Kidder. GE has also created the post of president and chief operating officer at the securities company for Mr Denis Nayden, an executive vice-president at GE Capital, the group's financial services arm.

In a further attempt to restore confidence in the firm, Mr Jack Welch, GE's chairman, took the unusual step of announcing that Kidder was likely to report a loss of \$25m-\$30m for the three months to June 30. The firm has been beset by reports that it had taken far higher losses in recent weeks on mortgage-backed bonds, a market which it dominates in the US.

Mr Welch added that GE expected to report second-quarter earnings of \$15bn.

The management shake-up at Kidder comes two months after Mr Welch expressed confidence in Mr Carpenter and his management team in the wake of a phantom profits scheme which rocked the Wall Street firm. Kidder has claimed that the head of its government bond trading desk, Mr Joseph Jett, created fictitious profits of \$350m to boost his bonus, although Mr Jett has said that he acted under instruction from senior Kidder executives.

Mr Welch said yesterday's management changes were being made to demonstrate GE's continuing commitment to Kidder. The company came close to selling Kidder two years ago, and the recent troubles have led to speculation that it may try again to dispose of the business.

"Kidder's fundamentals are strong and we intend to provide whatever financial and human resources are appropriate for the firm to realise its potential," Mr Welch said.

British-born Mr Carpenter had also been appointed by Mr Welch to run Kidder after a troubled period at the firm. In 1989, when he was made chairman, the firm had been rocked by insider trading allegations and poor profitability after the 1987 crash.

GE called Mr Dammerman's involvement at Kidder "a transition role", and said he would return to his position as chief financial officer at the parent.

MORSE

## A Faster Bus for the City.

20

THE average speed of a London bus is 10.2mph. The new Sun SPARCstation 20's MBus is about 66,000,000 times quicker.

The MBus is the route data takes to and from Sun's SuperSPARC processors. With a top speed of 400 million bytes per second, the MBus can handle up to four processors working away simultaneously.

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## NEWS: EUROPE

## German Social Democrat leader revives party's hopes of beating Chancellor Kohl

## SPD loves Scharping when he's angry

By Quentin Peel and  
Judy Dempsey in Halle

Mr Rudolf Scharping, the embattled leader of Germany's opposition Social Democrats, lost his cool with his party comrades yesterday, and they loved it.

In an angry and even passionate speech to the pre-election conference of the SPD, he demanded party discipline, denounced his detractors, and sought above all to galvanise the delegates out of a mood of mid-election blues.

They responded with a resounding vote to back him as the party candidate to challenge Mr Helmut Kohl for the chancellor's office in next October's general elections - with 479 votes out of 522 in his favour, or more than 90 per cent.

For a man who has made his name as a super-cool and massively self-controlled, to the point of being dull and wooden, it was a remarkable performance. It was also an essential one for the party and its leader, to revive their hopes of defeating Mr Kohl in October.

The venue was the giant indoor ice rink on the outskirts of Halle in the heart of east Germany's once-thriving chemical industry in the state of Saxony-Anhalt. And on Sunday, the local electors vote in another critical poll for a state parliament, which the SPD must hope to win to recover

momentum in the current election campaign.

Yesterday's conference came just 10 days after the party suffered a severe reverse in the European elections, losing five percentage points to score just 32 per cent - its worst result since direct European elections began in 1979. It also failed to break the dominance of Mr Kohl's Christian Democratic Union (CDU) in local council elections in four of the five eastern states, partly thanks to a resurgence in support for the Party of Democratic Socialism - the former East German communist party.

When Mr Scharping rose to speak yesterday, it was against a background of bitter recriminations in party ranks and widespread blame for his lacklustre leadership and failure to challenge Mr Kohl head-on for the chancellorship.

"He is absolutely colourless, much too bland. No wonder the PDS believes in itself, in itself and its goals, can win the confidence of Germany, and a majority." That was what they wanted to hear.

And yet he was preaching to the converted, for they were longing to hear good news.

"There is a majority for change in this country," he said. "A party which believes in itself, in itself and its goals, can win the confidence of Germany, and a majority." That was what they wanted to hear.

He flatly rejected any suggestion

the SPD should commit itself to a future coalition with the Greens, as its left wing wants to do. "We are not for spelling out our alliances," he said. "We are involved in an election campaign, and every other party is our competitor. Anyone who suggests otherwise damages the chances of the SPD to win a majority."

He admitted he was accused of being too dry and emotionless, but he was capable of being angry, too. "Anyone who wants to defeat me wants to defeat the SPD. That is what is behind it," he said. The applause rolled in.

Then he turned on his main rival for the party leadership, Mr Gerhard Schröder, the prime minister of Lower Saxony. He flattered him for winning an absolute majority - of just one seat - in his state parliament. And then he warned him to toe the party line.

"I would be quite grateful if we could talk a little bit more directly to one another sometimes," he said, very softly.

If there had ever been any doubt that there might be a backlash against his nomination as chancellor-candidate, it was gone.

He safely won a five-minute standing ovation.

Mrs Braun was equally ecstatic. "It was a great surprise," she said in the queue for sausages outside. "This was what we wanted to hear."



Call to arms: Scharping addresses yesterday's SPD conference

We are on our way."

But if Mr Scharping has managed to give his party an essential lift in its spirits, much still depends on the outcome of Sunday's state poll. The SPD was still 1.5 points behind the CDU in the state, according to last week's local council elections. Mr Scharping needs a clear win to launch his campaign for the chancellor's office.

## Rome gives debt and inflation priority

By Robert Graham  
in Rome

Mr Lamberto Dini, Italian treasury minister, yesterday signalled a shift in economic policy of the new Berlusconi government, emphasising the battle against inflation and the need to tackle the budget deficit and Italy's debt.

His statement to the annual meeting of the Italian Bankers' Association was an attempt to win back the financial markets' confidence in the government's economic policy. It follows a Treasury statement, in a similar tone, on Monday and

pledges by Mr Dini last Friday to carry out a tough 1995 budget.

"The priority of Italian economic policy must be to deal with any risks that might arise from the recovery," Mr Dini said. The economy is expected to grow 2.5 per cent next year.

The two fundamental guidelines were to "maintain a low rate of inflation and restore the health of public finances". The former director-general of the Bank of Italy added: "Without restoring the health of public finances, none of the macro-economic objectives can be reached."

## Italy milk row threatens summit

By David Gardner  
in Luxembourg

The row over the way Italy exceeds its EU milk production quota threatens to disrupt the Corfu summit of EU leaders which begins tomorrow and jeopardise the agreement reached at the 1992 Edinburgh summit to increase the EU revenue base from next year.

After three days meeting in Luxembourg, agriculture ministers of the 12 looked unable to resolve the milk controversy.

"I can't see that it's going to be done except at Corfu," a European Commission official said. Ministers at the meeting

said Italy's delegation appeared to be under instructions from prime minister Silvio Berlusconi to stick to its guns. The ramifications of the conflict are wide.

After former Italian prime minister Giulio Andreotti started his partners by forcing milk on to the Lisbon summit agenda two years ago, Rome agreed to cut its excess output in exchange for a quota increase. But in March, Brussels said Italy had not cut enough.

Italy then produced new figures saying its output had all along been overestimated. The UK meanwhile had taken the Commission to the

European Court, because it had reduced the fine for excess output by Italy, and to a lesser extent Greece and Spain, from Ecu3.2m to Ecu1.3m (£1.5bn). Mr Berlusconi wants the case dropped, and the new quota arrangements made retroactive to take account of the revised output figures. This would wipe out a large part of the fine, a move Germany opposes, saying it would cost its taxpayers Ecu500m.

But Italy says that unless it gets satisfaction, it will not ratify the Edinburgh agreement on revenue, necessary to increase flows of regional aid from next year.

Senior officials from Germany and the UK - the two largest contributors to the EU budget - hint that a block on the increase would not make them especially unhappy. But it would be "a bit of a mess", as a British official understated it. The EU would be unable to agree a budget for 1995.

The row could also affect ratification in other countries, notably the Netherlands, which is set to become the largest net contributor to the EU budget on a per capita basis.

Officials in Brussels and at Luxembourg are speculating that Mr Berlusconi may have reached a deal with Chancellor Helmut Kohl at their recent meeting.

This would include milk. Italian backing for Belgian prime minister Jean-Luc Dehaene to succeed Mr Jacques Delors as Commission president, and German efforts to mobilise the EU behind an Italian candidate - former trade minister Renato Ruggiero - to head the new World Trade Organisation.

That would still leave the British court case to be resolved. But senior EU diplomats note that the UK is anxious to cement an alliance with the more Eurosceptical Berlusconi government.

## Ministers back flexibility over Europe state aid

By Emma Tucker  
in Luxembourg

A majority of EU industry ministers yesterday threw their weight behind a commission proposal to allow a flexible interpretation of state aid rules, in order to secure crucial capacity cuts in Europe's battered steel industry.

At a meeting in Luxembourg ministers were persuaded by Mr Karel Van Miert, competition commissioner, that this was the only way to resurrect the steel rescue plan, which now - after weeks of uncertainty - looks set to survive.

Only the UK and Denmark had reservations. They were worried that the commission would set a bad precedent by allowing state aid to be paid to steel mills in northern Italy in return for only partial closures of the enterprises.

Under EU law, state aid is not supposed to be used to fund partial closures, but

because of complex cross-subsidy links among the Brescia mills, not all companies linked to steelmaking will close under the terms of the rescue plan.

"I am not entirely happy with what the commission proposes to do," said Mr Tim Sainsbury, UK industry minister. "That part of the plan that does not involve closure of full enterprises is not justified. I have reservations about how effectively the closures can be monitored and whether or not they will result in real reductions in capacity."

But Mr Van Miert said the commission intended to improve monitoring of the capacity cuts. It has agreed to take action against enterprises that do not meet the conditions for state aid payments, possibly by asking them to repay the aid. It also agreed to involve outside consultants in the monitoring process and said it would be particularly careful to ensure that debt accumulated by those parts of the steel enterprises that were not closing would not be off-loaded onto those parts that were.

Mr Van Miert believes the reductions at Brescia will secure a further 5m tonnes of capacity cuts, taking total production reduction under the plan to around 16m, still short of the envisaged minimum capacity cuts of 19m tonnes.

Although the commission did not need council assent on the steel plan, which falls under the competence of the commission, it was eager to get the political support of the member states.

## CORRECTION

## MTV

In the Financial Times of June 3, it was reported that MTV Europe has an audience of 25m households. MTV estimates that its audience is over 60m households.

## EUROPEAN NEWS DIGEST

## Hundreds of companies in Czech sell-off

The Czech Republic is to begin a big sell-off in the next two months of stakes in several hundred companies where the state remains a majority shareholder. Mr Roman Ceska, deputy privatisation minister and chairman of the National Property Fund, the state holding company, said yesterday. It is expected that up to a third of the Kc150bn (£3.5bn) worth of assets, involving mainly commercial and industrial companies in which the NPF retains a majority stake, will be offered for sale to domestic and foreign buyers by the end of this year. Some of the offers will be advertised internationally. Companies to be included in the sell-off include Chemické Zavody Sokolov, one of the country's biggest chemical companies, in which the US company Dow Chemical attempted to buy a stake two years ago. The deal fell through after the two companies failed to agree a price, and the NPF has remained as the company's majority shareholder. Mr Ceska, who took over from Mr Tomas Jizek as NPF chairman 13 days ago, said the state intended to offer each stake in its entirety to a single buyer and sell to the highest bidder.

The move is likely to be the last big sell-off by the government. Its voucher privatisation system, in which an estimated 6m Czechs bought vouchers enabling them to bid for shares in two tranches of companies being privatised, has so far resulted in the partial or complete privatisation of nearly 2,000 Czech enterprises, representing over 80 per cent of the country's economic activity. Vincent Boland, Prague

## Electrolux purchase approved

Electrolux, the world's leading household appliance maker, said yesterday it had received approval from the European Commission for its DM730m (£294.3m) acquisition of AEG Hausgeräte, the white goods arm of Germany's AEG industrial group. The takeover, which will now take effect from October 1, will bring Electrolux alongside Whirlpool of the US in global white goods sales, extend its lead in total appliance sales and give the Swedish group a commanding position in Europe's white goods markets. Together, Electrolux and AEG Hausgeräte have annual appliance sales of more than \$9bn. Combined with AEG, Electrolux will have a white goods market share in western Europe of at least 25 per cent, against 15-19 per cent for Bosch-Siemens of Germany and 11-15 per cent for Whirlpool Europe. In Germany, the AEG deal will give Electrolux some 35 per cent of the local market.

The Commission issued its approval of the takeover after a one-month review. Electrolux said the Commission's main concern had been over its position in Scandinavian markets, where its share is now set to rise significantly above its share in other European markets. Although Finland, Norway and Sweden are not yet members of the European Union, they are covered by EU competition rules under the European Economic Area agreement. Hugh Carnegie, Stockholm

## French rail workers strike

A strike by French rail workers against planned job cuts badly disrupted train services yesterday, and fewer than half the trains were running in many areas of the country, according to SNCF, the state railway company. The strike, which is due to last until this morning, forced the cancellation of most of the trains on the high-speed TGV network between Paris and the southeast, SNCF said. TGV traffic between Paris and the southwest was cut in half, while service to the north was normal. Commuter services into Paris were cut in half except from the eastern suburbs, where they were only slightly disrupted. The communist-led CGT union called the 34-hour strike. Another drivers' union, the FGAAC, backed the strike to demand talks on working conditions on the Channel tunnel line. Reuters, Paris

## Assembly to vote on Tapie

Mr Bernard Tapie, the French entrepreneur turned politician, will on Tuesday face a National Assembly vote to decide whether to endorse yesterday's recommendation by a committee to lift his parliamentary immunity. Mr Tapie, whose left-wing Energie Radicale movement won 12 per cent of the votes in this month's European elections, could then face two separate fraud charges concerning the purchase of the Phocée, his luxury yacht. His immunity was previously lifted late last year so he could be examined in a fraud case concerning Testut, one of his old business interests. Mr Tapie's critics have accused him of becoming a Euro-MP to stave off further legal threats. A cartoon on the front page of today's Le Monde shows him monocycling across a tightrope stretched between the French and European parliaments. Alice Rauschorn, Paris

## Çiller denies impropriety

Turkey's prime minister Mrs Tansu Çiller went on the record yesterday to deny allegations of official impropriety in her business dealings after newspaper claims that she had used her office to acquire property in the US. Mrs Çiller is under pressure to clear her name after a whispering campaign about her business dealings and those of her husband, who publicly gave up his licence as franchisee of the US fast food chain 7-Eleven when she became prime minister last year. Mrs Çiller told the official Anadolu news agency she had not declared the assets when she became an MP in 1991 because the properties were owned by Marsan, a Turkish-registered company in which she and her husband are shareholders. Moreover they were acquired before she became a minister. Milliyet, a Turkish newspaper cited documentation alleging the prime minister and Mr Çiller were the owners of a hotel, shopping centre and villa near Salem in Oregon, properties acquired since she was appointed to the cabinet in 1991. John Murray Brown, Istanbul

## ECONOMIC WATCH

## French consumption down

French household consumption of manufactured goods fell 0.9 per cent in May, compared with April, but the trend for the current quarter is still upwards, the Economics Ministry said yesterday. The ministry said decline in household consumption reflected the sharp increase in spending in April. Household consumption in April grew by a revised 1.8 per cent, partly reflecting government incentives for car buyers. Economists in Paris said spending in May was still 0.6 per cent higher than March and 1.1 per cent higher than the average for the first quarter. Even with flat consumption in June, they said second-quarter consumption should still show an increase of 1.5 per cent over the first three months. John Riddling, Paris

■ Dutch seasonally adjusted manufacturing production fell 2.0 per cent in April compared with March, but non-seasonally adjusted manufacturing production was up 1.9 per cent year-on-year, the Central Bureau of Statistics said.

■ Swedish gross domestic product rose by 0.1 per cent in the first quarter of 1994 from the fourth quarter of 1993 and by 1.4 per cent compared with the first quarter of 1993, the Central Bureau of Statistics said. Industrial production rose 2.1 per cent in April against March and 10.6 per cent year-on-year.

■ Hungarian industrial producer prices rose 0.9 per cent in April from March and were up 9.7 per cent from April 1993, the Central Statistical Office said.

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First-quarter growth figures confirm central bank's optimism over recovery

## Spain faces recession aftershocks

By David White in Madrid

Spain's recession is now over but its consequences will be felt for a considerable time, the Bank of Spain said in its annual report published yesterday.

Its optimism about the turnaround was confirmed by figures from the National Statistics Institute showing economic growth of 0.8 per cent in the first quarter against the same period last year. This was the first positive growth in year-on-year figures for Spanish GDP since the third quarter of 1992, and exceeded the central bank's earlier estimate of 0.5 per cent.

The figure compared with a 0.2 per cent decline in the last quarter of 1993 and a 1 per cent reduction for last year as a whole. It reflected a 19.1 per cent growth in exports in the quarter. Imports also rose by 4.5 per cent, the first increase since 1992.

Internal demand continued to fall but at a reduced rate of 2.1 per cent compared with 3.2 per cent in the previous period. The fall in gross fixed capital formation, meanwhile, slowed to 5.8 per cent from 8.9 per cent.

The Bank of Spain report said recovery had begun to affect internal demand, which could soon show "mod-

erately positive" growth. However, Spain faced "enormous difficulty" absorbing its high level of unemployment, now running at almost 25 per cent, and the effect that this would in turn have on the country's economic growth potential.

Prospects for sustained growth and economic convergence with the richer countries of the European Union were conditional on "more balanced macro-economic policies" and on greater success in reducing inflation and tackling the high public sector deficit, the bank said. The inflation differential between Spain and the three best-performing EU

members remained at about three percentage points.

Mr Luis Angel Rojo, Bank of Spain governor, said there was little room for further reductions in short-term interest rates, after a succession of cuts earlier this year. He said there would be "great caution" about interest rate levels in Europe generally, and there would only be room for further cuts in Spain if they reduced inflation and the public deficit.

"Any relaxation of monetary policy not justified by these factors would only help to increase the risk of an unbalanced recovery," he said.

## Ukraine's economy not on poll agenda

But links with Russia are, writes Jill Barshay

Ukrainian president Leonid Kravchuk appears to be defying the rule that incumbents stand little chance of re-election in a recession. Despite the record of his 30-month tenure - which has included a 40 per cent drop in gross domestic product over the first four months of this year alone - Mr Kravchuk is gaining in the opinion polls against his main challenger on Sunday, the former prime minister, Mr Leonid Kuchma.

Indeed, repairing the economy, the main challenge facing Ukraine's next president - is barely on the campaign agenda.

Instead, campaigning has focused on the shape of a proposed new constitution, the status of the Russian language in a country with an 11-million ethnic Russian minority and the extent of alignment with Russia itself.

Though Ukraine's leaders succeeded in creating an independent state from the disintegration of the Soviet Union, they have failed to make it economically sustainable, leaving its statehood fragile and beholden to Russia.

Ukraine is kept afloat by a large Russian subsidy (\$1bn-\$2bn annually in unpaid oil and gas debts) while Kiev props up its energy-wasteful heavy industries and subsidises its state farms with money it does not have.

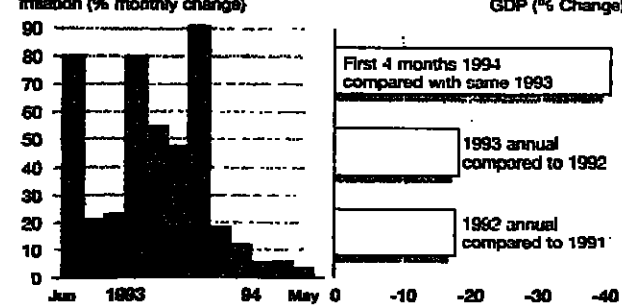
While the west has woken up belatedly to the fact that Ukraine's stability is important for Europe, Ukraine has yet to face up to the fundamental economic choice of whether to remain dependent on Russia or restructure its energy-intensive industries and diversify its markets.

Asked why no one is talking about economics, Mr Mykola Mikhalchenko, the president's chief domestic adviser, says: "The majority of Ukrainians are satisfied with the current path of reform."

In fact economic dissatisfaction is widespread, but Ukraine's main power brokers - the collective farm bosses, industrial directors and Soviet-

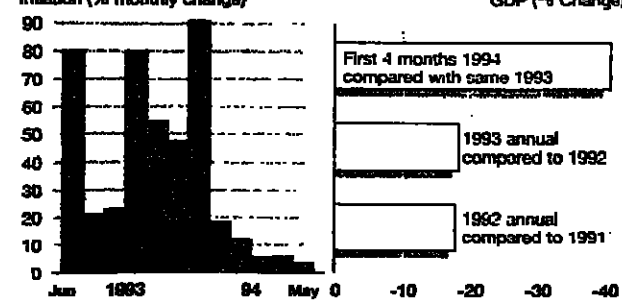
Ukraine

Inflation (% monthly change)



Source: Ukrainian Ministry of Statistics, International Centre for Advanced Studies, Kiev and Economic Research Project in the former Soviet Union, Dato University

GDP (% Change)



Source: Ukrainian Ministry of Statistics, International Centre for Advanced Studies, Kiev and Economic Research Project in the former Soviet Union, Dato University

era bureaucrats - are more interested in maintaining their positions than reforming the economy.

The slow pace of privatisation - only 150 enterprises in the first wave of the sell-off programme - has also meant the lack of a class of independent owners with an interest in reform. Many private entrepreneurs have gone underground to form a black economy which probably equals the official economy because it is the only way to survive in Kiev's thicket of restrictions and high taxes.

The only presidential candidate running on an economic reform platform, Mr Volodymyr Lanyov, is trailing with less than 10 per cent support in the opinion polls. Even Ukraine's nationalist west has abandoned him, unconvinced this "Ukrainian Gaidar" could beat their main foe, Mr Kuchma.

The two main contenders offer populist promises. Mr Kuchma, a Soviet-era missile plant manager who resigned as prime minister last September after a power struggle with the president, says he will resurrect Ukraine's economy by "re-establishing ties with Russia". But he does not say whether he means economic union, whereby part of Ukraine's sovereignty would be sacrificed to Russia, or freer trade, which would require Ukraine to lift subsidies and price controls as Russia itself has done.

The largely Russian-speaking

eastern Ukrainians, particularly communists and factory bosses, seek a return to pre-independence relations where orders from Russian plants flowed in. They are strongly criticised by Mr Mikhalchenko for not understanding "that Russia is just not the same it was two years ago - you can't just recreate the old connections now".

President Kravchuk offers an even vaguer platform of simply "developing Ukraine's socially-oriented economy", but observers do not regard his record as encouraging. Only last week he called for the indexation of savings, a move which would cost Ukraine about \$2bn at the current depressed exchange rate for the Ukrainian currency, the karbovanets.

Last winter the government tightened monetary policy and managed to reduce inflation from 90 per cent monthly last December to only 5.2 per cent last month. But the political fallout from the credit squeeze was too much to bear and Kiev loosened the monetary screws in early spring. In April alone the money supply grew 60 per cent.

With the desire to bail out ailing state enterprises winning out over the battle against inflation, most observers believe that the next president is likely to inherit a resurgence of inflation by the end of the summer and a host of other problems which the campaign has not addressed.

## Yeltsin defied as deputies' militancy grows

By John Lloyd in Moscow

Russia's lower house of parliament yesterday failed to pass the 1994 budget at a third reading and came out strongly against President Boris Yeltsin's decree against crime as it "seriously limits the constitutional rights and liberties of Russian citizens".

The votes, together with a swell of protest against proposals from Mr Vladimir Shumeiko, leader of the upper house and an ally of Mr Yeltsin, to prolong the terms of both the parliament and the president by two years without election, marks a sudden militancy in a body which has been relatively restrained in its six-month life.

The ground on which it is preparing to fight - that of the constitution - is similar to that on which Mr Yeltsin and the previous parliament divided and ultimately fought. The difference this time is that the constitution is Mr Yeltsin's creation.

The vote on the budget, which had been expected to go through after two lower house readings in which it gained large majorities, followed its rejection by the upper house earlier this week. The upper house had demanded an

increase in military spending in the budget from Rb37,500bn to Rb55,000bn, following sustained lobbying by the military and military industry.

A large majority of deputies voted for the budget but failed to secure the required 225 votes. Between 215 and 220 voted in favour, with 43 against and 90 abstaining.

There was overwhelming support - 346 against 6 - for a resolution calling on Mr Yeltsin to withdraw his decree announced last week "on urgent measures to protect the citizenry against banditry and organised crime". The size of the majority shows that opposition to the unconstitutional nature of the decree has spread across all parties.

Mr Viktor Ilyukhin, a leading member of the Communist faction, said it broke as many as eight articles of the constitution, while Mr Boris Fyodorov, reformist leader of the Liberal Democratic Union, said that "until the government and president obey their own laws and its own constitution we will not have reform here".

The decree allows for a suspect to be held without charge for 30 days, against the 48-hour limit specified by the constitution.

## Russia on course for EU free trade zone

By David Gardner in Luxembourg

The last obstacle to concluding a wide-ranging partnership agreement between Russia and the European Union, leading to a free trade zone by the end of the century, was removed yesterday when the Netherlands endorsed the deal.

President Boris Yeltsin is to sign the accord tomorrow morning in Corfu, at the summit of EU heads of government. The EU reached a similar deal with the Ukraine in Luxembourg last week.

The Dutch were unhappy with Moscow's conditions for the five EU banks already operating in Russia when a December 1993 decree restricting foreign banking activity came into force. Two Dutch banks were among the five.

These banks and the Dutch government have now received written confirmation from the Russian central bank that, under a subsequent decree, passed earlier this month, they are "authorised to carry on all operations mentioned in [their] licence", including with Russian residents.

Nancy Dunne adds from Washington: Mr Al Gore, US vice-president, yesterday predicted "multibillion dollar



Frederico Mayor (left), Unesco secretary-general, is greeted by Russian President Boris Yeltsin during a meeting yesterday in Moscow, where the UN agency is to open an office

contracts" for oil and gas exploration and in investment in sectors such as housing and transportation in Russia. There would be "new markets, new trade in both directions" between the US and Russia.

He was speaking in a television interview before a meeting with Mr Victor Chernomyrdin, Russian prime minister. The two head a commission, which meets this week in Washington, to press joint efforts on business, sci-

ence, defence, energy and the environment.

A senior administration official said US investment in Russia could leap from its current \$1bn to \$40bn-\$50bn by the end of the decade if Russia developed a liberalised trade and investment regime. The official added there would be talks about proposals for a large oil exploration agreement involving Marathon Oil and McDermott, both of the US.

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## NEWS: INTERNATIONAL

## Anxious Japanese fearful of yen's strength

William Dawkins on worried industrialists and financiers – and contented consumers

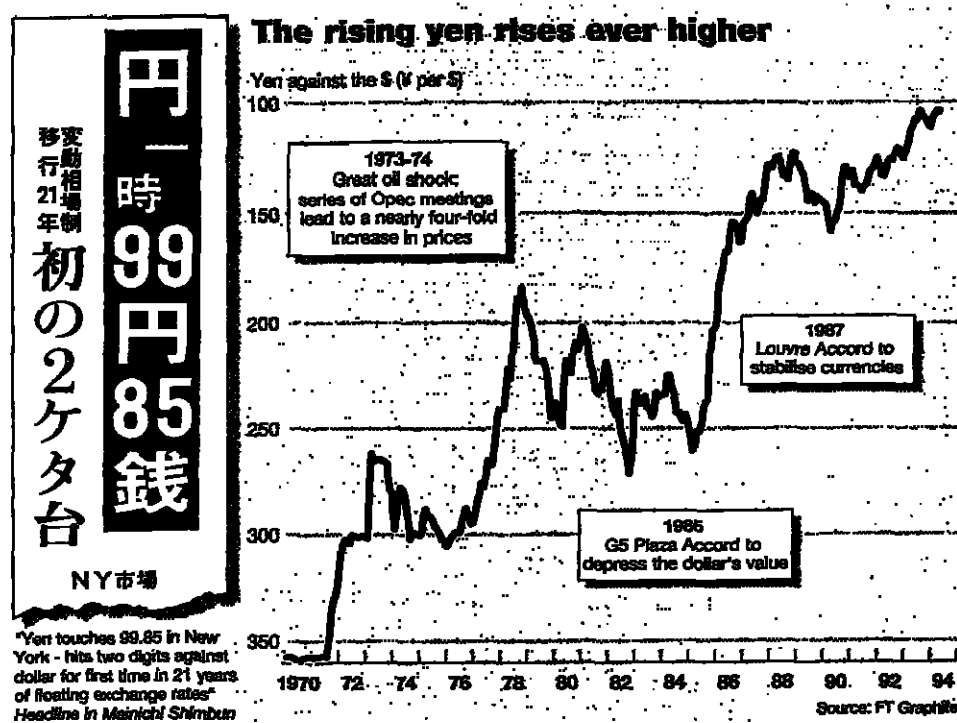
The unthinkable suddenly became thinkable yesterday after the yen briefly voyaged, for the first time, through the psychologically emotive barrier of ¥100 to the dollar.

This historic trip into unknown territory has reawakened corporate Japan's fears that the unexpected strength of the currency might stifle the country's fragile economic recovery, just as an unscheduled rise in the yen did this time last year.

An anxious Tokyo government yesterday said it would step up efforts to reach a trade agreement with the US, suspense over which has contributed to the yen's rise, and seek co-ordinated currency market intervention with other members of the Group of Seven. The yen hit a new closing high of ¥100.65 to the dollar in Tokyo yesterday, 12.6 per cent above its level at the turn of the year.

"Rapid fluctuations would do harm not only to the Japanese economy but to the world economy," warned Mr Hirohisa Fujii, finance minister, after an emergency cabinet meeting to discuss the yen's break through ¥100 in New York the previous night. He would not comment on why, by yesterday evening, central banks had not jointly intervened, as they did last time the dollar fell sharply against the yen, in May.

"There is a scream arising from Japanese industry," added Mr Eijiro Hata, minister



"Yen touches 99.85 in New York - hits two digits against dollar for first time in 21 years of floating exchange rates" Headline in Mainichi Shinbun

of international trade and industry. The rise could not have come at a worse time, in European and US markets after the Japanese government had gone to bed, celebrating the yen's announcement of a 3.9 per cent annualised increase in gross domestic product in the first quarter, the best performance for three years.

A satisfied Mr Tsutomu Tanaka, vice minister of the gov-

ernment's economic planning agency, had at the time announced that - barring a yen shock - Japan had now turned the corner, from its 37-month long economic slowdown, the longest post-war decline.

The currency turmoil prompted the third consecutive daily fall in share prices yesterday, leaving the Nikkei 225 index down 231.8 points at 20,581. The Bank of Japan

bought dollars heavily. But officials said there was no change in monetary policy, on the grounds that the yen's rise was more of a function of the dollar's weakness against the D-Mark, even if this could be "negative for the economy".

Most Japanese companies based forecasts of a recovery this year from four years of profits decline on an exchange rate of about ¥105 to the dollar. They may therefore have

to reduce their forecasts if the yen sticks at the present level. The impact, however, will be uneven. Export dependent sectors, such as electronics lose 5.7 percentage points from annual pre-tax profits with each one yen rise of the Japanese currency against the dollar, estimates Nikko Research Institute. Car manufacturers lose 10 per cent of their profits for every yen rise, estimates Miti's Mr Hata.

Car importers, by contrast, have been achieving record sales recently - 8.6 per cent of the Japanese market in May - thanks to the yen's strength. Japanese consumers have seen prices of imported goods fall accordingly. Unsurprisingly, they find it hard to understand the routine cries of alarm from government and companies at every time the yen rises through a psychological barrier.

This invites the question of whether the Finance Ministry is right to be as worried as it is. The currency rise is not enough to choke the general economic recovery, as happened last year, believes Mr Yusuke Kashiwagi, senior adviser to the Bank of Tokyo and former vice minister of finance for international affairs.

"I don't think this will hit recovery prospects. This recovery is consumer led and not export led, so the exchange rate will affect the minds of business rather than consumers," he said. However, he

admitted that the volatile jumps in the yen's value were getting "more and more unbearable" in casting uncertainty over Japan's economic performance.

Mr Jun Saito, senior economist at the government's Economic Planning Agency, believes managers are getting more worried by the yen's appreciation, rather than learning to live with exchange rate volatility. "They are having to make hard decisions on how to adjust."

So far, corporate Japan has avoided the toughest decisions. It has avoided making radical cuts to reduce its high-yen inflated costs in line with international competitors, so that consumers have been partly insulated. However, companies have started to cut recruitment and have increased the pace at which they move production out of Japan to cheaper locations.

According to a recent survey by the Yomiuri Shinbun daily, 70 per cent of Japanese companies will recruit fewer new people this year. In the meantime, the proportion of overseas production will rise from 7 per cent of the total now to 12 per cent in the next two to three years, forecasts the Tokyo office of Morgan Stanley. The latest yen shock can only reinforce those trends, suggesting that Japan is unlikely in this decade to recover to the fast economic growth of the 1980s. The yen's strength makes for a weak economic dawn.

## Keys budget confirms fiscal caution

Mark Suzman and Tony Hawkins on new South Africa's spending plans

Any fears that South Africa's business community might have had that spending on righting the wrongs of apartheid would dent the new government's commitment to fiscal discipline proved unfounded yesterday when the finance minister, Mr Derek Keys, presented the African National Congress-led government's first budget to parliament.

Indeed, initial reaction in markets both at home and abroad was favourable, with business welcoming the budget's pro-investment thrust.

At the same time, an ANC election promise to abolish VAT on basic foodstuffs and the fiscal implications would have been "significant". In the words of one economist, "it comes as a surprise to see an ANC government handing out goodies to the corporate sector but not to the masses".

Mr Keys managed to keep the projected budget deficit close to the 6 per cent of gross domestic product limit agreed with the International Monetary Fund.

He is forecasting a deficit of 6.6 per cent of GDP for the financial year March 1995 on 3 per cent growth, or 6.4 per cent when the full collection of a temporary income tax levy is taken into account. This compares with 6.9 per cent last year and, with some analysts arguing that the revenue forecasts are conservative, the actual deficit could well be lower.

"The deficit's still a little high, but the emphasis is on investment rather than consumption, which will help sustainable growth," notes Mr Nick Barnard, economist at broker Ed Hearn Rudolph.

Increases in social spending will be focused on the new government's Reconstruction and Development Programme

which, as previously announced, will amount to R2.5bn (\$488m) for the current financial year. Expected future allocations come to R37.5bn over five years, although this figure is subject to change, depending on future economic growth and political pressures.

Ministers defended the decision not to abolish VAT on basic foods saying that targeted spending programmes such as free health care for infants and a school feeding scheme would do more to achieve poverty reduction than tax cuts.

Particularly striking was the size of the costs of the transition at nearly R4bn. This was largely due to greater than expected costs from the election and the incorporation of former guerrillas into the army. To help finance this, revenue will increase 11.2 per cent in the current year, thanks primarily to a R2.6bn transition levy on individuals and companies.

Individuals will pay a 5 per cent surcharge on that portion of their income in excess of R50,000 a year. Companies will pay a smaller 5 per cent surcharge on their profits.

Mr Keys and his deputy Mr Alec Erwin stressed that the transition surcharge would be temporary and that the government would not seek excuses to maintain it into the next financial year as a "wealth

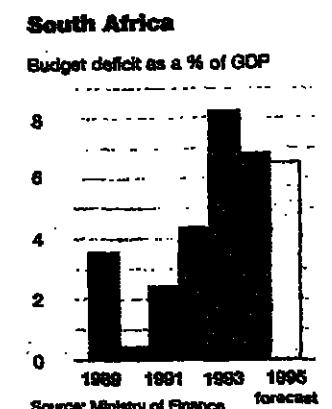
tax". Mr Keys's also announced the appointment of an Independent Tax Commission to restructure the tax system.

A cut to 35 per cent from 40 per cent in the corporate tax rate is partly compensated by the increase to 25 per cent from 15 per cent in the so-called secondary tax payable on dividends.

The net effect will be an increase of R2bn in direct taxes, partly offset by a R500m reduction in the import surcharge on capital and intermediate goods. Mr Keys will also raise an extra R350m from increased "sin taxes" on alcohol and tobacco.

At 23.6 per cent of GDP, the tax take will be virtually the same as last year, reflecting an anticipated 3 per cent growth in output this year. Government spending at just more than 30 per cent of GDP, is forecast to be slightly lower than last year.

After taking account of loan repayments, Pretoria faces a borrowing requirement of R36.5bn (R33bn last year) almost all of which (R34.5bn) is to be funded from domestic borrowing, with R1.8bn raised offshore. Mr Keys said the breakdown between domestic



Source: Ministry of Finance forecast

and foreign borrowing would depend on market conditions and the outcome of South Africa's quest for an international credit rating, expected by the end of the year.

Social spending will absorb 45 per cent of the budget, up from 44 per cent last year, with education accounting for 23 per cent, health 10.2 and social security 9.3 per cent. Within health, 25 per cent of the budget will now be diverted to primary health care, which has become a focus of President Nelson Mandela's government.

Also notable has been the increase in the defence budget which the ANC before the election had repeatedly identified as a sector from which much money could be diverted to development. However, this year's allocation, which has been swollen by transitional costs of incorporating former ANC guerrillas into the army, rose to R12.1bn from R10.6bn. The total share of defence has actually increased to 8.7 per cent of the budget from last year's 8.1 per cent, but remains well down from 13.7 per cent in 1990/91.

Mr Keys' announcement that there would be no change to the current exchange control regulations, despite widespread speculation in business circles that some liberalisation was imminent, did not affect the markets and the rand remained steady.

## Beijing to double telecoms spending

By Tony Walker in Beijing

China plans to spend Yuan450bn (\$62bn) on its telecommunications network to the year 2000, double previous estimates and including \$7bn in funds from abroad.

Western experts in Beijing said the jump in projected spending reflected a recognition by the government of a need to accelerate provision of telecommunications services to match China's commercial aspirations.

Mr Wu Jichuan, minister of posts and telecommunications, said the funds would be used to install sophisticated switching equipment; provide 20,000km of optical microwave lines; build land satellite stations and purchase sophisticated letter sorting equipment.

Investment in telecommunications has been rising rapidly in the past few years with expenditures increasing from Yn40.4bn in 1983 to this year's budget of Yn53.6bn.

Mr Wu said a "small amount" of the telecomuni-

cations' funding requirements would be covered by capital grants from the state. The bulk would come from domestic and overseas loans.

China plans to have 110m lines installed by 2000. This would be sufficient, according to telecommunications experts, to service 30 per cent of urban dwellers and 5 per cent of those living in rural areas.

Mr Wu said China would be the world's largest telecommunications market next century. "Foreign investment is encouraged in all areas except the direct management of telecommunications businesses or gaining control of a company through buying stock," Mr Wu told the official China Daily.

China is making determined effort to source most of its telecommunications requirements locally by 2000.

Western experts say China will be "pretty well self-sufficient" in switching gear by the year 2000. They also expect the Chinese will seek more sophisticated items from the international market to build its electronic "super highway".

## Hata starts talks on coalition with Social Democrats

By William Dawkins in Tokyo

The minority government of Mr Tsutomu Hata, yesterday started talks with the opposition Social Democratic party to save the ruling coalition from imminent defeat.

Government officials will this morning meet the SDP for a second time, in an attempt to persuade it to

rejoin the coalition, so restoring its parliamentary majority. This would ensure the failure of a no-confidence vote by the largest opposition group, the Liberal Democratic party, which could be launched as early as today.

The markets will watch the talks closely because the latest bout of political instability has been a factor in exchange rate turmoil. It has

fuelled fears that the government will be unable to produce a convincing package of deregulation and tax reform measures, due next week, so stoking US frustration and putting more pressure on the yen.

If the SDP refuses to join forces with Mr Hata, and sides with the LDP, the no-confidence vote will probably succeed, forcing Mr Hata

and his cabinet to resign. Mr Hata has said that he would not call an election, because that would delay completion of a new electoral system, but leave it to other parties to form a coalition.

SDP leaders yesterday indicated they are interested in rejoining Mr Hata's camp. The party has agreed, in a document presented to the govern-

ment, to a rise in indirect taxation, the most controversial part of the coalition's economic policy.

The SDP party also wants promises it will be more closely involved in decision making, a sensitive point because formation of a centre right grouping within the coalition, but excluding the SDP, prompted it to walk out of the government in April.

## UN agrees to French troop deployment in Rwanda

By Michael Littlejohns, UN Correspondent, in New York and David Buchan in Paris

The United Nations Security Council last night agreed to independent deployment of French troops in Rwanda to protect civilian lives until a UN force is adequate for the task.

The council acted with some reluctance, even though the resolution does not mention France by name, speaking only of a temporary multinational

operation "under national command and control". Ten of the 15 members voted for the plan. Brazil, China, New Zealand, Nigeria and Pakistan abstained.

France has said it expects one or more other European countries to join a mission that, according to the resolution, will be strictly humanitarian and "conducted in an impartial and neutral fashion".

The troops will "not constitute an inter-position force" between the warring parties.

But Mr Claude Dusaldi, UN representative of the Rwandan Patriotic Front, was unconvinced. Shortly before the vote, he accused France of trying to block an insurgent victory in the civil war. "We shall resist French intervention with all the means at our disposal."

The rebels' opposition was a factor cited by members who abstained on the French proposal.

In Paris, Mr François Léotard, defence minister, said "Operation Turquoise" could

start today Paris is mobilising some 2,500 men by drawing on 1,500 troops stationed in Gabon and Djibouti and flying the rest out from France.

Mr Léotard said an advance party had landed in Goma in Zaire near the northwestern border of Rwanda. Officials said French troops would seek to protect pockets of Tutsis in the western part of the country held by the mainly Hutu government forces.

He said he had given his troops "very precise instruc-

tions to avoid any confrontation with the [rebel] forces".

Mr Édouard Balladur, the prime minister, told the National Assembly, France could count on the military participation of Senegal and hoped for at least logistic help from several European countries.

He said he had been in contact with Prime Minister Silvio Berlusconi of Italy, who has announced Italian military participation conditional on agreement of both sides in the conflict. France also had "active politi-

cal and logistic support" of the US, Mr Balladur said.

The operation is mandated for two months. It could be less if Mr Boutros Boutros-Ghali, UN secretary general, manages to bring the UN force up to strength sooner than that.

His strong backing for the French initiative was critical to its success in the council. Members were also influenced by his warning that it could take up to three months for the projected 5,000-man all-African UN force to be fully deployed.

## Pakistan chambers 'to strike'

By Farhan Bokhari in Islamabad

Pakistan's largest organisation of trade associations and business chambers last night threatened to strike from Sunday if the government does not withdraw its plan to widen an existing net of a VAT-style general sales tax.

The government said it was extending GST to include up to 277 items in last week's budget. Businesses are opposing the measure on the grounds it would fuel corruption by giving extra powers to government inspectors to clamp down on various factories unless they were paid an illegal "gratification".

"This budget will ruin the economy. Its no good," said Mr S.M. Muneer, chairman of the Federation of Pakistan Chambers of Commerce and Industry which represents 120 associations and 30 business chambers, after the first round of discussions with government ministers and officials.

"They (businesses) want to pay more taxes but not the GST because it will only give birth to corruption" Mr Muneer added.

Mr Ahmed Mukhtar, commerce minister, said some of the objections from businesses were being considered by officials for possible changes, but the government would not consider any of the demands "under pressure".

Such confrontation between the government and business leaders is not unique in the days after the budget. In previous years too, businesses have resisted various budgetary measures, eventually forcing governments to back off or partly tone down some of their proposals.

However, it was not clear last night if the two sides could reach a compromise without one of them backing off on an important issue of interest.

## Seoul officials optimistic over talks with North

By John Burton in Seoul

South Korean officials yesterday expressed optimism that an unprecedented summit meeting with North Korea will take place, after Pyongyang agreed to discuss arrangements.

"The North Koreans' sincerity seems higher than at any other time in the past," said Mr Han Sung-joo, South Korea's foreign minister.

He described as "encouraging" the North's quick approval of a proposal from Seoul to hold a preparatory meeting for the summit on June 28, to be attended by each side's deputy prime minister.

Previous attempts to arrange inter-Korean talks have been plagued by procedural disputes, but this does not appear to be case so far this time, Mr Han said.

North Korea suggested the summit last week when former US President Jimmy Carter visited Pyongyang in attempt to mediate in a dispute over international inspections of North Korean nuclear facilities.

Officials in Seoul believe the

summit could be held as early as mid-July and coincide with a new round of high-level talks between North Korea and the US to discuss possible diplomatic ties. South Korea has no objection to the normalisation of US-North Korea relations as long as Pyongyang "is willing to fulfil its international obligations and start behaving as normal and law-abiding nation," Mr Han said.

The US has suggested it will recognise North Korea if Pyongyang allows the International Atomic Energy Agency to conduct full inspections of its nuclear facilities.

In Brussels yesterday, the US and Russia agreed on a common approach towards a possible United Nations Security Council resolution on sanctions to be imposed on North Korea over the refusal to allow inspections.

The agreement between Mr Andrei Kozyrev, Russia's foreign minister, and Mr Warren Christopher, US secretary of state, appeared designed to exert pressure on Pyongyang to make good its assurances to Mr Carter that it was willing to freeze its nuclear programme.

"We have developed a common approach towards a sanctions resolution which will integrate a possible international conference as well," Mr Christopher said.

Mr Kozyrev said: "Right now, we should show quite clearly that sanctions would be inevitable if North Korea does not take any positive steps."

Mr Christopher said on Tuesday that the US was ready to put the campaign for UN sanctions in abeyance if North Korea confirmed the assurances it gave to Mr Carter.

A senior US official said the proposal agreed with Mr Kozyrev meant an initial phase of sanctions against North Korea would take effect 30 days after a resolution was enacted by the Security Council. Mr Kozyrev said: "These 30 days should be used for the international conference, to avoid the sanctions which of course are an extreme measure."

The conference would include representatives of the UN, IAEA, South Korea, North Korea, China, Japan, Russia and the US, American officials said.



South Korea's Foreign Minister Han Sung-joo answers questions at a press conference on plans for talks with North Korea

## Omo and Persil under analysis as Unilever and Procter differ over triazacyclononanes

By Tony Jackson and Clive Cookson

The soap war between detergents giants Unilever and Procter & Gamble has bubbled over into a new arena: the scientific press. Today's issue of the leading science journal Nature carries a highly technical analysis by 13 Unilever scientists of Persil Power and Omo Power, the detergent recently launched by Unilever across Europe.

Procter has claimed the new

powder, which was developed at a cost of several hundred million pounds, damages clothes.

The paper gives a wealth of technical detail on the manganese-based catalyst - known as the Accelerator - which allows the new powder to wash at much lower temperatures. However, it does not address the two main charges levelled by Procter: that the Accelerator harms fabric, and that the manganese builds up in clothes over repeated washings.

The magic ingredient in the new powder turns out to be a complex of manganese metal with a series of organic chemicals known as triazacyclononanes. It acts by speeding up the bleaching process which removes stains.

The traditional bleach in detergents is hydrogen peroxide, which is slow to act at temperatures below 60°C. According to Unilever's researchers, powder containing the Accelerator is two to three times more effective at removing

tea stains from cloth at 40°C than the current generation of European powders.

Unilever said the article had been written before the row with Procter had erupted. "We felt it was not an article on the general use of detergents, but on the chemistry of manganese catalysts," the company said.

● Ronald van de Krol adds from Amsterdam: Unilever said sales of Omo Power in the Netherlands fell in late April

after Procter's claims were publicised. Sales have partly recovered after widespread newspaper advertising, but remain below the "excellent" results when the product was first launched.

The company has asked Dutch shops to put stickers on Omo Power recommending it be used at 40°C or 60°C. Test results have shown that damage to clothing is highest when the detergent, designed for low temperatures, is used at 90°C.



Political jostling could lead to bruising transatlantic row

## Salinas joins race to head WTO

By Damian Fraser in Mexico City, Guy de Jonquière in London and Frances Williams in Geneva

The race to head the World Trade Organisation, the successor to the General Agreement on Tariffs and Trade, has entered a new phase with the decision by President Carlos Salinas of Mexico formally to put his name forward.

His nomination was confirmed as it emerged that South Korea plans to become the first Asian country to propose a candidate for the WTO. The name, believed to be that of an experienced trade policy-maker, will be announced in Seoul today.

Meanwhile, a note of uncertainty was injected into the European Union's plans to back Mr Renato Ruggiero, a former Italian trade minister, for the post, when officials in Brussels said he might not be formally endorsed by EU leaders at their Corfu summit this weekend.

The officials said that though Mr Ruggiero remained the only declared European entrant, EU leaders were expected only to discuss his candidacy informally in Corfu. They would probably leave it



Salinas (left) free-trader; Ruggiero (centre) uncertain; Ricupero (right) backed by Brazil



to their foreign ministers to deal with the question next month.

Mr Salinas' decision to enter the race comes earlier than expected, and almost two months before the election in August which will choose his successor as president when he steps down after a six-year term in December.

His nomination follows his

broad endorsement at last week's Ibero-American summit by the heads of all Latin American states except Brazil, which has proposed Mr Rubens Ricupero, its finance minister, for the post. "My personal feeling is that the US, as well as Canada and most Asian countries, will support the Salinas candidacy," Mr Manuel Tello, Mexico's foreign minister, who

is running President Salinas' WTO campaign, said.

Mr Salinas is the best known free-trader, he was the driving force behind agreement on the North American Free Trade Area embracing the US, Canada and Mexico. While he is widely considered to have outstanding political credentials

for the WTO post, his nomination could further complicate a decision on a candidate. That likelihood would increase if he were actively supported by Washington, while the EU promoted Mr Ruggiero.

In that event, some international trade officials believe, the outcome could be a bruising transatlantic confrontation, into which other countries could be drawn, or a stalemate which could open the way for a compromise candidate. Furthermore, Mr Salinas' candidacy threatens to divide Latin America if Brazil stands by its nomination of Mr Ricupero. Mr Tello has written to Mr Celso Amorim, Brazil's foreign minister, asking him to withdraw Mr Ricupero's name.

He said Mr Amorim told him on May 30 that Brazil would reconsider its position if Mr Salinas chose to run, and had assured Mr Salinas Brazil would look favourably on the candidacy of the Mexican president. Since then, Brazil appears to have persuaded Argentina to retreat from the backing it gave Mr Salinas at the Ibero-American summit in favour of Mr Ricupero. Mexico says it has not been informed of any change in Argentina's stance.

## Singapore Airlines in \$10.3bn order

By Paul Betts, Aerospace Correspondent

Singapore Airlines (SIA) yesterday placed one of the world's biggest aircraft orders - for 52 Boeing and Airbus large wide-body airliners, worth \$10.3bn (£6.68bn).

The order surpasses the \$3.6bn order SIA placed in 1990 and covers 22 Boeing 747-400 jumbos worth \$4.9bn and 30 Airbus A340-300E long-range airliners worth \$5.4bn.

Both the US manufacturer and its European rival competed fiercely for the SIA order in view of the reluctance of airlines to commit themselves to significant new aircraft purchases.

Earlier this year SIA told the bidders it planned to buy a combination of Boeing and Airbus wide-body airliners, but it also suggested it would consider opting for just one aircraft type if it got a sufficiently attractive proposal, further intensifying the competition.

However, SIA finally opted for a mix of 359-seat Boeing 747s and 271-seat A340s, which it will deploy on long-haul routes that do not require the capacity of a 747.

All three leading engine

Lucas Aerospace, the aerospace arm of the UK engineering group, yesterday signed a \$10m joint venture agreement with the Taikoo Aircraft Engineering Company (Taeco) based in Xiamen, on the south coast of China, to establish an aviation repair and overhaul facility for engines, flight control systems and other aerospace equipment.

The venture, 65 per cent owned by Lucas and 35 per cent by Taeco, will begin operations in early 1996. Taeco itself is a joint venture in which partners include Cathay Pacific, Singapore Airlines and Japan Airlines.

manufacturers, Pratt & Whitney and General Electric of the US and Rolls-Royce of the UK, were competing to supply power equipment for the new SIA aircraft.

SIA selected Pratt & Whitney engines for its new 747s and CFM engines jointly developed by GE and Snecma of France for the A340s.

Although Rolls-Royce was regarded as an outsider in the SIA competition, the decision is a disappointment for the

UK aero-engine manufacturer.

Of the 22 Boeing 747 airliners, 11 are on firm order and the rest on option. Of the 30 A340s 10 are on firm order and 20 on option. The total value of the firm orders placed by SIA is \$12.5bn.

SIA said it had the flexibility to convert the options to other aircraft types. The Boeing 747-400s can be converted to any of the three models of the new Boeing 777 twin-engine wide-body aircraft, while the A340-300E options can be converted to the twin-engine A330 or another version of the A340.

SIA, one of the world's most profitable airlines, expects to finance the orders from its cash flow, but if necessary it will resort to borrowing or leasing.

The new aircraft, to be delivered from 1996 to 2003, will expand SIA's fleet as well as replace older aircraft. SIA at present operates 63 aircraft and expects to see its fleet grow to 111 aircraft by 2003.

"The latest order is an expression of our faith in the long-term health of the aviation industry and the promising future of SIA," said Dr Cheong Choong Kong, the airline's managing director.

## Quotas for EU TV programmes come under fire

By Emma Tucker in Brussels

Television quotas in European Union countries are 'damaging development of Europe's audiovisual sector and work against the interests of the film producers, rights holders, artists and technicians they are supposed to protect, according to a report published today.

Prepared by consultants London Economics on behalf of Sony Europe, the report argues that quotas are anti-competitive, harmful to the promotion of European television production, a drag on the creation of jobs and culturally ineffective.

Its findings come amid indications from the European Commission that it is willing to consider changes to the existing broadcasting directive. This directive recommends that EU-based TV channels allot at least half their broadcasting time to European-made programmes "wherever practicable", excluding time allotted to news, sports, games, advertising and teletext services. It also says at least 10 per cent of programming budgets should be devoted to European works from independent producers.

Earlier this week Mr João de Deus Pinheiro, commissioner responsible for the audio-visual sector, said proposed changes to the directive would not be anti-American and quotas would not be tightened.

The existing quotas are intended to nurture Europe's broadcasting industry, and protect social and cultural values from the strong competition of cheap US imports.

But the report - based on studies of TV in France, Germany and the UK - says quotas are anti-competitive as they do not affect the programme output of well established channels such as the BBC, ZDF and TF1 (which already exceed quota requirements), but that of new entrants.

"Quotas make it more difficult for new entrants to compete, either by reducing the attractiveness of their schedules as a result of switching out of imported programming, or by forcing up their programming costs," says the report.

*The Economic Impact of Television Quotas in the European Union*, London Economics, 91 New Cavendish Street, London, W1M 7FS.

## Li presses for power progress

China's premier, Mr Li Peng, has urged speedier progress in negotiations on a \$2bn (£1.3bn) power project in southern China involving GEC-Alsthom and Chinese partners, Tony Walker reports from Beijing.

Lord Prior, GEC chairman, said in Beijing yesterday Mr Li had left no doubt he was anxious for the project to move ahead quickly because of electricity supply problems.

Lord Prior, who met Mr Li on Tuesday, said he expected negotiations on the coal-fired Jiaxing plant in Zhejiang province to finish next year, but financial discussions were proving complex.

This will be GEC's first power project in which it will take an equity stake through a build-operate-transfer (BOT) funding arrangement.

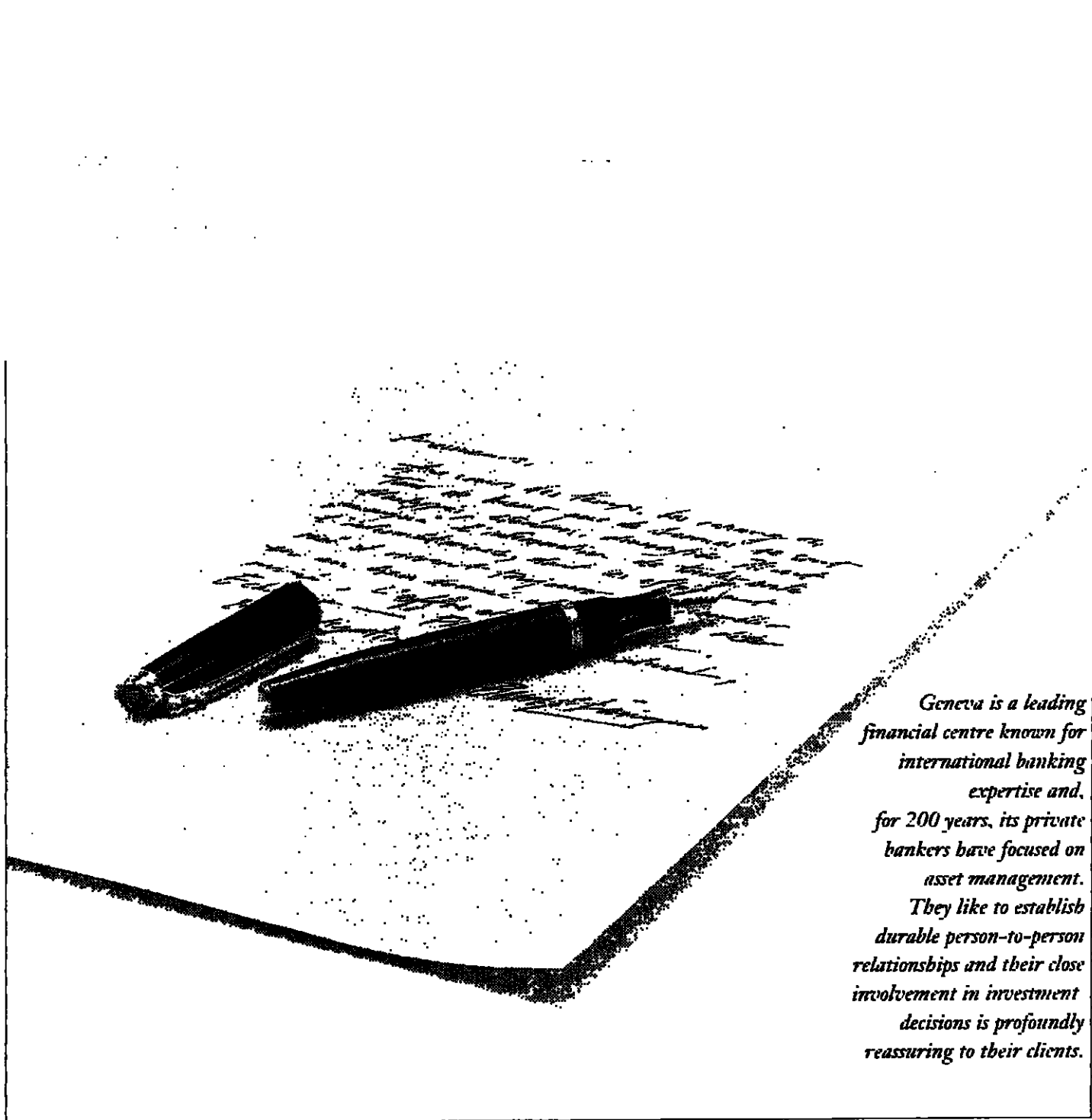
## Taiwan in aerospace talks

Taiwan is renewing its efforts to enter the commercial aerospace business, after earlier partnership negotiations, first with McDonnell Douglas of the US, then with British Aerospace, collapsed, writes Paul Betts, Aerospace Correspondent.

A Taiwan aircraft company, Aero Industry Development Centre, said it was considering producing aircraft components for a new McDonnell Douglas 100-seater twin engine aircraft, the MD88.

AIDC officials have held talks with the US company, which two years ago failed to forge a \$2bn (£1.3bn) commercial aerospace alliance with Taiwan. McDonnell Douglas was proposing to invite 10 partners jointly to produce the new aircraft.

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## NEWS: THE AMERICAS

# Greenspan seeks to allay inflation fear

Fed chief aims to bolster confidence in dollar

By Michael Prowse  
in Washington

Mr Alan Greenspan, Federal Reserve chairman, yesterday sought to bolster international confidence in the dollar by arguing that many investors were too pessimistic about the outlook for US inflation.

He said an increase in US long-term bond yields this year was to be expected given faster economic growth and an increase in global demand for capital. But long-term rates were higher than they needed to be, because they embodied an excessive "inflation premium".

"I think that the inflation premium is too high, that nominal long-term rates... are higher than they should be" and would decline if the Fed held "inflation increasingly to a path of stable prices".

This situation was partly a lingering consequence of high US inflation in the 1970s which undermined confidence in US monetary policy. The inflation premium in long rates reflected a "still sceptical world financial market view that American fiscal and monetary policies retain some inflation bias".

Speaking before the House

budget committee, Mr Greenspan did not comment directly on the dollar but instead tried to address fears underlying heavy recent selling.

There had been some "recent firming of prices of some products and raw materials". However, "owing to constrained increases in unit labour costs, broad measures of producer prices for final goods have not generally reflected the increases in those input costs. In addition, monetary and credit growth remains quite muted."

The outlook for inflation was thus "quite reasonable" and monetary policy was "dedicated to ensuring it remains that way". Mr Greenspan gave no sign that present inflationary pressures were sufficiently intense to require another increase in short-term interest rates in the near future. He seemed, instead, inclined to wait and see what effect the rate increases already announced would have on prices and output.

Questioned about deficiencies in the consumer price index, he agreed that it overstated the underlying rate of inflation for various technical reasons.

The upward bias probably

lay in the range of 0.5-1.5 percentage points, he said.

This would imply that the "true" rate of inflation was closer to 2 per cent than nearly 3 per cent, as indicated by the official index. It would also imply that real short-term rates were higher than generally assumed.

Mr Greenspan cautioned against assuming certain levels of unemployment or industrial capacity utilisation would automatically trigger upward pressure on inflation.

He said manufacturing capacity utilisation, at a shade under 80 per cent, was well above its historical norm. However, "there is no clear-cut trigger point for capacity utilisation as a signal for emerging inflationary pressures".

He also reacted sceptically to claims by some economists that the US jobless rate, now 6 per cent, was at or below the "natural rate" of unemployment - a national threshold below which inflation is assumed to begin accelerating. The "enormous complexity and dynamism of our labour markets" made such calculations impractical.

He would watch carefully for signs of resource pressures in the labour market.

## Risky strategy to fend off Republican challenge in elections

# Democrats hit at 'religious right'

By George Graham in Washington

Democratic party organisers, searching for ways of heading off a possible landslide of defeats in November's congressional elections, have embarked on a strategy of attacking the rival Republican party as a captive of radical, religious right-wingers.

The plan is a risky one that could backfire in areas of the US such as the south and west, where conservatives and Christian evangelicals dominate the electorate.

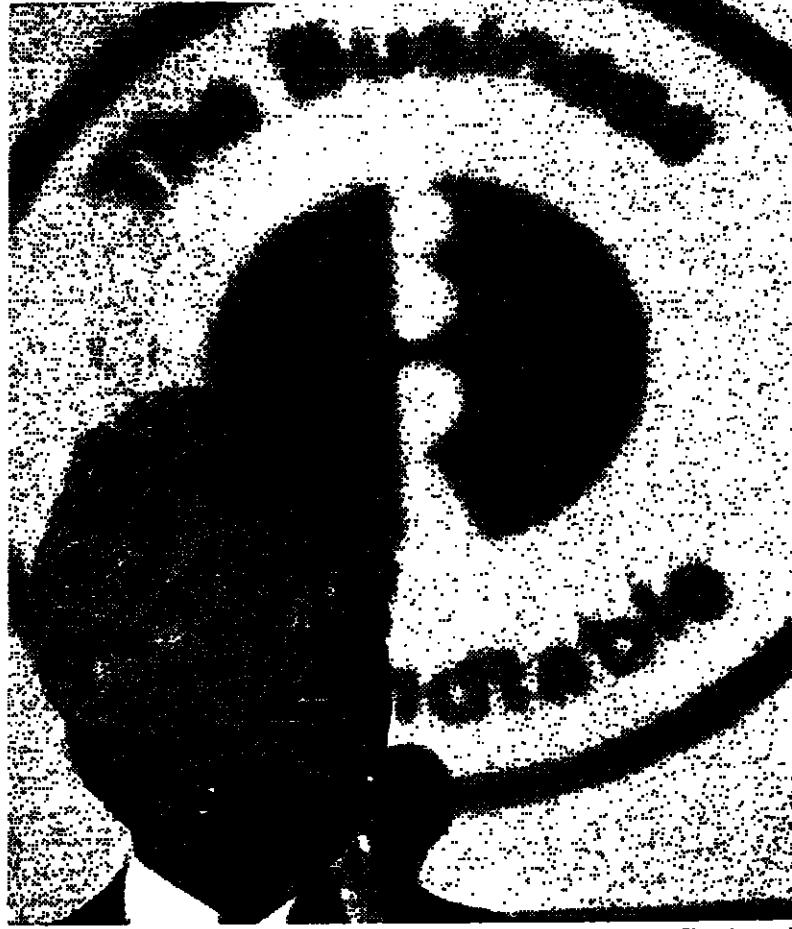
Many Democratic strategists, however, believe religious extremism could become a "wedge issue" they can use to peel voters away from their opponents - just what they need at a time when some of them fear their party could lose as many as 45 or 50 of its 266 seats in the 435-seat House of Representatives, throwing control to the Republicans.

Mr Vic Fazio, the California congressman who chairs the Democratic congressional campaign committee, sketched his party's line of attack in a speech in Washington this week in which he said the Republican party was now dominated by a radical and intolerant fringe group.

"The Republicans accept the religious right and their tactics at their own peril, for these activists are demanding their rightful seat at the table, and that is what the American people fear most," Mr Fazio said.

Democratic candidates in Pennsylvania, California, Oregon, Missouri and Idaho have already launched attacks in a similar vein on their Republican opponents, calling them extremists and "mouthpieces for the radical right."

The attacks have been fuelled in recent weeks by Virginia Republicans' choice of Mr Oliver North, the contra-



President Bill Clinton, pictured addressing business leaders, is struggling to avoid Republican party victories in congressional elections in November

versal Iran-Contra figure, to run for a Senate seat, by the Texas party's choice of a new chairman backed by religious groups, and by Minnesota Republicans'

selection of a Christian right candidate for governor in preference to the sitting Republican governor.

Christian Coalition, a right-wing religious organisation that has worked to get Republicans elected in many states, hit back by accusing the Democrats of "Christian bashing" and religious bigotry.

And some Democratic campaign managers cautioned that their party had to be very careful to focus its attacks on its opponents' positions on issues such as abortion, school syllabuses and the position of women, and to avoid being seen as attacking people for their religious beliefs.

The charge of religious extremism could prove effective in reducing the electability of Republican candidates in suburban areas.

But it is likely to be counterproductive in rural districts, especially in the south, where as many as half of the voters may count themselves as born-again Christians.

Mr Fazio said the 1990 redrawing of district boundaries had made many more districts competitive and reduced the Democrats' incumbency advantage. In addition, of the 49 seats left open by a sitting member's retirement, 30 are currently held by Democrats.

"Of those 30 seats held by the Democrats, we classify only two 'likely Democratic'. The other 28 are extremely marginal and could go to either party on election day," Mr Fazio said.

Dissatisfaction with President Bill Clinton and continuing distrust of Washington incumbents also make the Democrats' task more difficult.

But while Republican party strategists are confident of being able to build on this to fashion a substantial victory in November's congressional elections, some warn that they will need to develop a much more positive message if they want to win back the White House in 1996.

## Hopes rise on healthcare bill

By George Graham

Senator Daniel Patrick Moynihan yesterday promised that the Senate finance committee he chairs would start detailed drafting work on a healthcare reform bill next Monday, possibly signalling that President Bill Clinton's deadlocked reform initiative may at last be starting to move forward again.

The finance committee has long been regarded as the key to the healthcare bill. Because the committee's membership of nine Republicans and 11 Democrats, including several centrist swing voters, closely mir-

rors the political balance of the full Senate, any bill that could not win the committee's backing is reckoned to have little chance of final passage.

Mr Clinton and Mr Moynihan have engaged in a tug-of-war over the last few days. The bookish New York senator has repeatedly insisted that legislation guaranteeing universal health insurance coverage cannot pass Congress this year, while Mr Clinton has refused to back down on what he calls his single non-negotiable demand. Mr Clinton this week begged business leaders not to walk away from the healthcare debate, and casti-

gated rival reform plans that might end up covering only 91 per cent of the population.

"Unless we can provide coverage for every American in a reformed system which focuses on both quality and control of costs, the deficit will grow, your costs will continue to grow and undermine productivity, and more and more Americans will lose their coverage or be at risk," Mr Clinton told the Business Roundtable, a gathering of the heads of some of the US's largest companies. By agreeing to schedule a committee "mark-up" on Monday, Mr Moynihan seems to have blinked.

By Santa Kendall in Bogotá

Colombia's president-elect Mr Ernesto Samper yesterday vehemently denied accusations that his election campaign had benefited from contributions by the country's Cali cocaine cartel.

A tape containing conversations allegedly detailing possible contributions was released in Bogotá yesterday, only three days after the election success of Mr Samper, a member of the ruling Liberal party.

The tape was released by Mr Samper's defeated opponent, the Conserva-

tive Mr Andres Pastrana. He was given the tape in Cali just before the election and passed it on to outgoing President César Gaviria. The prosecutor general is investigating the case.

Mr Samper said his campaign treasury had not received any money "of doubtful origin" and offered his accounts to the prosecutor general for examination. Mr Pastrana played the tape and said it could not in any way be interpreted as involving his own campaign. He asked Mr Samper to issue a statement saying he would resign as president-elect if it was shown the Lib-

eral treasury had received money from drug traffickers.

Three conversations are recorded on the tape, the first two allegedly between a journalist and a senior member of the Cali cartel. The third is between the same journalist and a man considered to be leader of the Cali group.

Nicknames and elliptical references are used in the conversations as well as some direct mention of figures in the presidential campaign. At one point the journalist says multi-million dollar contributions are needed and the answer is: "Those are there. That is defined."

The context suggests this refers to the Samper campaign. However, transcripts of the tape released in the Bogotá press also refer to a meeting with a member of Mr Pastrana's campaign, and to contacts with independent law-and-order candidate Mr Miguel Maza Marquez, who later backed Mr Samper after defeat in the first round.

Diplomats have said they would be surprised if some drug money had not entered the campaign of both the runoff candidates, though they stressed this could have occurred without the candidates' knowledge.

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## NEWS: THE AMERICAS

# Addiction or taste in battle for smokers' allegiance

By Richard Tomkins in New York

Are US tobacco companies deliberately manipulating the amount of nicotine in cigarettes to keep the nation's 46m smokers addicted? Damning evidence presented to Congress this week seemed to suggest as much.

On Tuesday, a House of Representatives sub-committee heard allegations that Brown & Williamson Tobacco, a US subsidiary of Britain's BAT Industries, had secretly developed a genetically engineered tobacco called Y-1 that contained more than twice the amount of nicotine found in normal tobacco plants.

Mr David Kessler, commissioner of the US Food and Drug Administration, told the committee that B&W had earlier denied breeding tobacco plants for high or low nicotine levels: yet the company had several million pounds of Y-1 tobacco stored in US warehouses and had been using it in five domestic brands of cigarettes.

Mr Kessler's purpose in presenting the evidence was to bolster his case for bringing cigarettes under his agency's control. Previously he has threatened to regulate cigarettes as drugs if it could be shown

that manufacturers intend people to buy them to satisfy a nicotine addiction. At the hearing on Tuesday he said there was no longer any doubt that the tobacco industry was manipulating and controlling nicotine levels in its products.

B&W will reply to the allegations at a further hearing today, but it has already accused Mr Kessler of blowing the issue out of proportion. There was nothing secret about Y-1, it said: it was just one of a variety of domestic and foreign tobaccos used by the company to provide the unique "recipe" of ingredients that went into each brand.

In reality, the history of Y-1 is almost an irrelevance. At issue are two questions: first, whether cigarettes are addictive, and second, whether manufacturers intend them to be addictive. If the answer to both questions is yes, the FDA may be able to bring them under its jurisdiction as a drug.

That manufacturers control the levels of nicotine in their cigarettes is not in doubt. In the 1940s, nicotine and tar occurred in cigarettes at more than three times today's levels, but manufacturers gradually reduced them through refinements in the processing technique to satisfy demand for smoother and lighter cigarettes.

Anti-smoking campaigners, health officials and industry experts in the UK were yesterday in broad agreement that the world beyond the US had little to fear from the Y-1 high-nicotine tobacco, the commercial use of which was revealed this week by Mr David Kessler, head of the US Food and Drug Administration, reports Jimmy Burns.

Mr Stephen Woodward, deputy director of ASH, the anti-smoking lobby said: "Our experience of tobacco companies is that any new product that is judged to give a competitive advantage, very quickly spreads throughout the industry".

However, ASH said that it had no evidence to contradict the assertion by BAT Industries, parent of Brown & Williamson Tobacco of the US which developed cigarettes containing the Y-1 strain, that

these had been largely withdrawn after proving unpopular with consumers. Mr Woodward said he did not believe that Y-1 has been widely used on unsuspecting guinea pigs in the Third World. Tobacco companies, he pointed out, have no problems in the Third World marketing high-nicotine high-tar cigarettes without having to resort to new technologies.

His views were echoed by Mr Nicholas Wall, a professor in environmental protective medicine at St Bartholomew's Hospital, London.

"I can't see who would want to go through all the trouble and expense [in the Third World where] there is less reason to use high-nicotine strains of tobacco because there has been less public pressure to reduce tar yields," he said.

and earlier no-nicotine brands had failed through lack of demand. Mr Kessler has recently backed off from earlier suggestions that tobacco manufacturers deliberately "spike" their products to keep smokers addicted, but has more recently said it is sufficient to show that cigarette manufacturers have the ability to control the level of

nicotine in their products and have allowed it to remain at addictive levels. The industry position is that cigarettes are not a drug as defined in the 1939 Federal Food, Drug and Cosmetic Act because they "do not intend to affect the structure or any function of the body". In any event, manufacturers say, smoking cannot be addictive because more than half



Kessler: accused of blowing the issue out of proportion

of US citizens today who have ever smoked have quit - more than 90 per cent of them without professional help.

Mr Kessler's ultimate objective appears to be to bring the tobacco industry under his agency's control so that he can force manufacturers gradually to reduce levels of nicotine in their products and so wean smokers away from the habit.

Critics say a possible risk in such a policy is that it could lead smokers to smoke more cigarettes to compensate for the loss of nicotine intake, so increasing their exposure to the carcinogenic ingredients of cigarettes without hurting industry profits.

On past form, however, it will be a long time before things get this far. If the FDA moved to take control of the industry, the tobacco manufacturers would undoubtedly take the agency to court. Armed with vast resources of cash and extremely experienced lawyers, they would stand a good chance of emerging unscathed.

Until now, US courts have taken the view that the hazards associated with smoking are so well known that anybody taking up the habit assumes all the risks involved. In the eyes of the courts, the industry, it seems, is blameless: it has never lost a case yet.

## WORLD CUP

# Testing time for middle men

Peter Berlin in San Francisco on the role of the referees

Tucked away in the corners of US bookshops is a depressing collection of World Cup titles. There are shelves piled with beginners' guides that explain the world's game in the language of John and Janet.

One of the better publications is by Pete Davies, a British author, called *Twenty-Two Foreigners in Funny Shorts*. Any American who has taken an interest in the matches so far will know that Davies gave his book the wrong title. This is a game for 25 foreigners in funny shorts.

Fifa, world soccer's governing body, has changed the officials' uniforms from dull black to eye-catching patterns in yellow and red. Fifa wants lots of red and yellow from the referees, and has given instructions that were bound to increase the attention focused on them.

Joao Havelange, Fifa's president, announced before the competition that any referee who did not show a red card - and thus expel a player from the game - for a tackle from behind would find himself on the first flight home.

There have been enough nasty tackles from behind to fill a segment which ESPN, the US sports network, has been showing at half-time during matches, but, after the first five days, only Miguel Nadal of Spain had been sent off for such an offence, and no referees had been spotted at the airport.

One Fifa official told me that Havelange had been speaking figuratively. But this did not mean that the threat lacked bite. Referees who did not follow Fifa directives would not be selected to referee matches in the later rounds.

It was even possible that a referee who especially upset the referees' committee might be pulled from a first-round match he had already been assigned to. In other words, referees who are seen to make mistakes cannot expect support from Fifa; instead, they will get a public humiliation designed to make clear that they, not Fifa, are at fault.

In truth, Fifa wants black and white (and yellow and red) where there is often only grey. When top athletes tangle at high speed, with arms and legs all over the place, it is often impossible, even with slow-motion replays, to determine



German striker Jürgen Klinsmann goes down after a challenge in Tuesday night's 1-1 draw with Spain. Picture: Reuters

whether the tackler touched the ball or the opponent first.

And players exploit that doubt. Defenders often try to make sure they connect with ball and opponent: the attacker's first reaction is often to fall to the ground as if shot. Understandably, referees have been inconsistent.

American newspapers, which bow to no-one in the art of second-guessing referees, ran pictures showing that Thomas Dooley of the US played the ball in the crucial tackle from behind in the US-Switzerland game. The referee gave a free kick but did not send Dooley off. From the kick, Switzerland's Georges Brégy scored.

Unsurprisingly, Fifa offered a clarification. Sepp Blatter, Fifa's general-secretary, said: "If the tackling player does not touch the ball then he should be sent off. If he takes the ball away then obviously he has played the ball."

Nevertheless, waving a red card is still a drastic action from which referees flinch. Khalil Azmi, the Moroccan goalkeeper, escaped unpunished after a frontal assault on Belgium's Josip Weber which saved a certain goal. Azmi had the presence of mind to stay down injured and have himself carried

from the field. It takes a degree of courage to wave a red card at a man on a stretcher.

In general, referees have appreciated a little help. Marco Etcheverry of Bolivia barely poked Lothar Matthäus in the bottom with the toe of his boot. But the German captain, always willing to guide the referee, turned on Etcheverry in indignant fury. Result: a red card. The Russians pushed and wrestled the Brazilians all afternoon; it was only when they sent their opponents flying through the air that the referee, An Lan Kim Lee Chong of Mauritius, reacted.

Referees have been inconsistent in handling the tackle from behind, and have largely refused to interfere when attackers back into defenders and defenders shove back. But they have been refreshingly steady on a couple of modern soccer's nastiest fouls.

A glimpse of raised studs when the ball is on the ground, or raised elbows when the ball is in the air, inevitably attract a penalty. The latter has not been a problem so far, unlike their British counterparts, most players at the finals do not seem to believe that they must raise and lower their elbows vigorously to jump for headers.

Referees have also responded

with a will to Fifa's demand for increased productivity. By Tuesday evening, 47 yellow cards and two red cards had been waved at players in the first 13 matches, up from 30 yellow and four red four years ago.

And yet the soccer has been far superior. There have been a few cynical fouls, but games have not been dominated by foul-minded defenders. On the other hand, it is not clear yet whether the blizzard of yellow cards has helped produce the sparkling play, or resulted from over-reaction to what fouling there has been.

Blatter is in no doubt where the credit belongs: "It is such a pleasure, after what we have done to improve refereeing over the past three years, to see how good the refereeing is here."

However, nearly 20 per cent of first-choice players are one mis-step away from a suspension. If Fifa's decision to ban Etcheverry and Nadal for two matches, instead of the more usual one, is a sign of intent, many teams could find themselves with gaps in their line-ups in the knock-out stages.

Since most of the missing players will be defenders, that will tip the balance even more towards attackers. No doubt that is what Fifa and the watching billions want.

## Norway braced for Italian backlash in toughest group

Erlend Johnsen and the rest of Norway's defence are bracing themselves for an Italian backlash in their World Cup Group E clash in New Jersey today. "E" is considered the toughest of the six first-round groups. Qualifying matches for the second round continue for another week.

"The Irish did us a favour by showing us that it is possible to play our way in this heat but they didn't do us a favour by beating Italy," said the Chelsea defender. Ireland beat Italy 1-0 last weekend.

"The pressure is now on Italy and that's a problem for us, having to meet them next. It's not going to be easy because they will be desperate to win," he said.

The Italians are seeking more than the three points that will put them back into group contention and restore their battered reputation. "We have to play like we're convinced we'll win," said Italian midfielder Demetrio Albertini. "We let Ireland dictate the game to us when it should have been the other way round."

In the Italians' favour is that Norway felt the strain of their late win over Mexico. "We were all knackered after the game against Mexico," said Johnsen. "These conditions are a definite advantage to the South American and Latin teams."

Ireland remain favourites to win the group. Johnsen said: "I'm sure Ireland will beat Mexico on Friday. They are very similar to us and Mexico will find it hard to play against that style. They don't like the muscular defensive play. You have to keep your concentration all the time. They showed with a couple of late chances that if you make a mistake they might punish you."

Striker Roberto Baggio was declared fit to play against Norway, having suffered an inflamed right Achilles tendon. But out for the game, and possibly the tournament, is mid-fielder Alberto Tomba, who strained his right leg in training. The injury appeared to be serious, team doctors said.

## S Korean shipyard set for stoppage

Thousands of workers at the world's largest shipyard, in South Korea, plan to go on "temporary strike" during today's Group C match between South Korea and Bolivia in Boston. The labour union at Hyundai Heavy Industries in Ulsan, south-east of Seoul,

said it plans to call a three-hour stoppage to enable its 25,000 members to watch the match.

South Korea need to beat the Bolivians if they are to reach the second round for the first time. They drew 2-2 with Spain last weekend with two goals in the last six minutes.

Hyundai union leaders said the plan for a temporary strike was part of their efforts to put pressure on their management, which had been unco-operative in months of wage negotiations. The union wants 13 per cent more; the company is offering 5 per cent. Hyundai's management called the planned strike illegal.

Prisoners in Bangladesh have already pulled the same stunt - going on hunger strike before releasing and agreeing to resume eating when their custodians agreed to let them watch World Cup matches live.

## Easy victory for stylish Nigerians

A partisan Cotton Bowl crowd in Dallas cheered every Nigerian move throughout an easy Group D 3-0 victory over Bulgaria on Tuesday.

"I didn't believe it when I saw the crowd," said Rashidi Yekini, who scored Nigeria's first goal. "It was our first time in the World Cup and everybody loved us. That's why we had more confidence."

As expected, the Nigerians, African champions, showed an always-attacking approach that the crowd enjoyed. "I told my boys they want entertainment in the USA - good football with action," Nigerian coach Clemence Westerhof said. "We are not afraid. We came from far away to show that Nigeria can play football."

## US coach banks on high-tech approach

It may not guarantee success, but the US team has an array of high-tech gadgets to help them assess rivals' teams. Coach Bora Milutinovic's portable fax machine runs almost non-stop, his tape machines hum and the mail brings a steady flow of videotapes and publications.

The US team played Colombia last night in Los Angeles in their second Group A game. It is feared that US interest in the tournament will slump if the home team is brusquely bundled out.

## Standings

GROUP A	P	W	D	L	Pts
Romania	1	1	0	0	3
Switzerland	1	0	0	1	1
USA	1	0	1	0	1
Colombia	1	0	0	1	0

GROUP B	P	W	D	L	Pts
Brazil	1	1	0	0	3
Cameroon	1	0	1	0	1
Sweden	1	0	0	1	0
Russia	1	0	0	1	0

GROUP C	P	W	D	L	Pts
Germany	2	1	0	0	4
Spain	2	0	2	0	2
South Korea	1	0	1	0	1
Bolivia	1	0	0	1	0

GROUP D	P	W	D	L	Pts
Argentina	1	1	0	0	3
Nigeria	1	0	0	0	0
Bulgaria	1	0	0	1	0
Greece	1	0	0	1	0

GROUP E	P	W	D	L	Pts
Ireland	1	1	0	0	3
Norway	1	1	0	0	3
Italy	1	0	0	1	0
Mexico	1	0	0	1	0

GROUP F	P	W	D	L	Pts
Holland	1	1	0	0	3
Belgium	1	0	0	0	0
Saudi Arabia	1	0	0	1	0
Morocco	1	0	0	1	0

## Today's games

GROUP E	Italy vs Norway
	New Jersey (8:00 pm EST)
GROUP C	South Korea vs Bolivia
	Boston (12:30 am ET, EST)

By last Sunday night, the US players were reviewing computer-generated assessments of the previous day's 1-1 draw against Switzerland. The coach knows how many times opposing players went right, how many times left - and how many times straight up the middle.

Each US player gets an individual videotape before each game, analysing opponents' styles and habits. Milutinovic has three videotape decks in his hotel room to prepare the materials. "In 1990, we just looked at videotapes of our opponents' games," US defender Paul Caligiuri says. "This is much more sophisticated."

## Quarter of Germany watches Spain game

In Germany, an estimated 25 per cent of the 80m population tuned in on Tuesday evening for the defending champions' 1-1 draw with Spain. The ZDF network said 20.2m viewers were ready at 10pm to watch the start of the game.

The draw gave Germany which beat Bolivia in its opener, four points in Group C and an almost sure passage to the second round.

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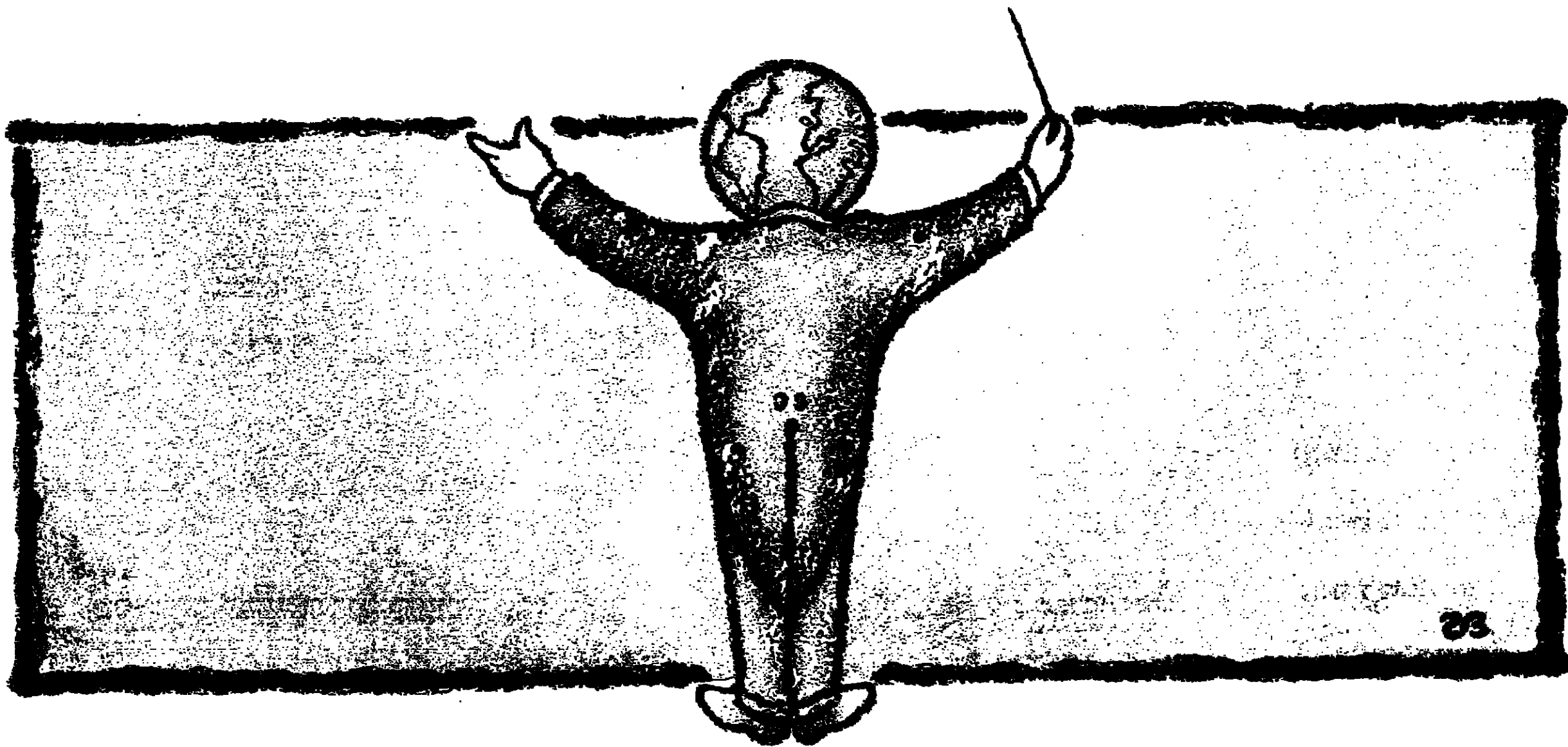
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# Tougher code for regional aid

By Chris Tighe

The government is taking a tougher line on applications for regional aid from inward investors considering England as a location and indigenous companies wanting to expand. The Department of Trade and Industry yesterday confirmed that it is now scrutinising applications for Regional Selective Assistance in England more stringently, as part of the constraints on public spending.

The tightening up on the allocation of RSA grants has not been publicly announced, but its effect is arousing concern among many of those dealing with inward investment, an internationally highly competitive field.

Mr Tim Sainsbury, industry minister, has been lobbied by development agencies and local authorities worried that the tougher approach will disadvantage the English regions in their pursuit of economic regeneration, as mobile inward investors shop around internationally for the best deal. "If you aren't in the shop window, they won't come in and talk," warned one development agency boss yesterday. Another said: "Securing inward investment is highly competitive, a grant regime is a major element in being able to secure projects." RSA allocations, he added, also had a great bearing on the competitive edge in international markets of indigenous English companies seeking grant

aid for capital investment. Mr Sainsbury's response to the complaints has been that since the recession is hitting, more projects are now bidding for funding and that more areas of England are competing, following last summer's redrawing of the Assisted Areas Map. The DTI said yesterday this year's RSA budget for England - which includes an undisclosed number of commitments made in previous years - is £100m, compared with 1993/4's £88.2m. "There's no less money available overall, but we're being increasingly careful about who gets the money," said a spokeswoman. But some economic development bodies are fearful the government's belief that the

UK is now a highly attractive location for inward investment is lessening ministers' commitment to a grant regime. Their worries have been heightened by the government's decision, unveiled in last month's competitiveness policy paper, to lay greater stress in granting RSA on the quality of jobs created. This policy may make it more difficult to win grants for projects offering the kind of less skilled work attractive to many jobless people in high unemployment areas. There is also concern that the English regions are losing out not just to overseas competitors but to Wales and Scotland, whose applications for RSA are dealt with by the Welsh and Scottish offices.

## Britain in brief



## Irish-based insurer for London buses

London Transport has been forced to set up its own Irish-based insurance company to provide affordable insurance cover to the 10 London bus companies which are due to be privatised later this year. Routemaster Reinsurance, named after the best-known of London's red buses, is intended to fill a gap in the established insurance market which is reluctant to insure bus companies.

The new company will also allow newly established management buy-out teams, which have no operating record to put to the insurance industry, to buy insurance at reasonable rates, Mr Clive Fracy, head of risk management at London Transport, said.

Insurance premiums are expected to be the second largest cost item in the bus companies' accounts after wages.

This move by London Transport will be watched closely by the soon-to-be privatised train operating companies which also face problems in obtaining affordable insurance.

Initially, each of the 10 bus operators will become a shareholder in the new company though membership could be widened later to include bus companies from other parts of the UK.

## 13 directors convicted

Thirteen company directors were convicted in criminal cases in the first quarter of 1994 compared with three in the previous quarter, the Department of Trade and Industry said yesterday. A further four directors were disqualified for periods between two years and seven years as a result of civil proceedings.

## Case put for equality

Companies need to be convinced there is a good business case for them providing equal opportunities for men and women in the workplace, Ms Kamlesh Bahl, the chairwoman of the Equal Opportunities Commission said yesterday. "Employers must understand the economic arguments for equal opportunities", she added. "Our aim is to ensure we make the most of human potential and individual choice and that such strategies are cost efficient".

## Investment at record level

Net investment by UK institutions rose by £2.2bn in the first quarter of 1994 to a record level of £15.4bn, the UK government's Central Statistics office said. Of that, the greatest single beneficiary were UK government securities which had a net inflow of £5.22bn, the highest single quarterly figure for investment in this category since at least the fourth quarter of 1992.

## Newspaper war begins

Mr Conrad Black last night declared war in Britain's broadsheet newspaper market by cutting the weekday price of the Daily Telegraph to 30p, the price to which Mr Rupert Murdoch reduced the Times last September.

"This is war and no one goes to war in other than a sober mood but we are market leader and we will protect our position," said Mr Black, the Telegraph's chairman. He took the decision yesterday after consulting senior executives. The retaliation came after 10 months in which the Daily Telegraph insisted it had no intention of cutting its price to match The Times.

But in April the circulation dipped below 1m for the first time in more than 40 years.

There was a further fall in May to 993,395 in circulation as The Times reached record sales of 1,015,000.

Mr Black said Telegraph sales were now above 1m but he was not "going to sit like a meek pudding" and allow any competitor to attack his share of the market.

## Teachers 'should learn from Europe'

England's classroom teachers need to learn from colleagues in the rest of Europe if the country is to compete effectively, MPs heard yesterday.

Mixed-ability teaching and low expectations are allowing the least able pupils on this side of the Channel to slip further behind, with the Government's education reforms not going far enough to redress the balance, it was stated.

The evidence to the Commons' education select committee came from Mr Sir Prais, of the National Institute of Economic and Social Research, and Mr Roger Lorton, principal inspector from the London Borough of Barking and Dagenham.

They reported research into schools in France, Germany, Holland and Switzerland, where they found less difference between inner-city and other schools, and between children of different backgrounds within schools.

They blamed clear differences in teaching practices and organisation.

Continental teachers saw their role as ensuring that virtually all pupils reached the standard set for each year group, they said in written evidence. In contrast, English teachers tried to cater for the differing abilities of individual pupils, and ended up by reinforcing them.

"The better provision made in a great variety of aspects of Continental schooling - especially for those who are low attainers - leads to higher average standards and less variability," they said.

They did not advocate wholesale importation of Continental teaching practices, but said that many aspects of schooling in England "need to be reconsidered".



The British Horse Racing Board altered its rules to let racehorse owners sell advertising space on the sleeves and collars of jockeys' silks. The board, the governing body for horse racing in Britain, will also allow advertising on paddock blankets and the backs of stable lads' jackets.

## Warning on Lloyd's agents

By Richard Lapper

The Lloyd's insurance market's relationship with new institutional investors could be damaged by Lloyd's agents who attempted earlier this year to dismiss some Names from their syndicates, a senior corporate financier warned yesterday.

The agents had acted in anticipation of new rules that guarantee Names continued participation in syndicates.

Sir Laurie Magnus, deputy head of UK corporate finance at Samuel Montagu, the merchant bank, told a London conference on corporate capital that failure by agents to "respect the spirit" of the new rules on pre-emption rights

would be seen as "diabolical" by the investment community.

The rules are designed to allow the Names, whose assets support the market, to increase their participation in line with any overall increase in syndicate capacity.

Pending introduction of the changes last May, eight agents are understood to have written to Names - both individual and corporate - giving them provisional notice, effectively cancelling their participation as of December 31 this year.

Sir Laurie last year co-ordinated the launch of the London Market Investment Trust, the biggest of more than 12 new investment vehicles at the market. Corporate investors pressed

hard for Lloyd's to introduce pre-emption rights last year, when they supplied more than 900m to support syndicates.

Lloyd's syndicates obtain about 10 per cent of their capacity from corporate sources, but are seeking more funding as a result of the expected fall in the number of individual Names.

A new round of losses reported last month, which brought Lloyd's cumulative deficit since 1988 to £7bn, is expected to force many individuals to leave the market.

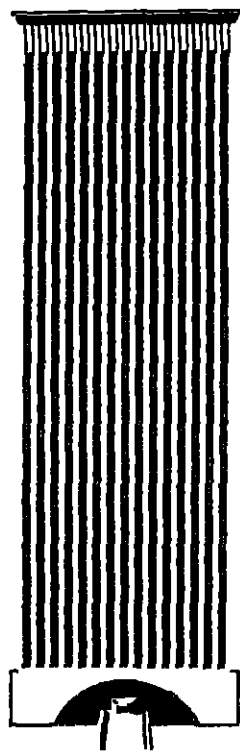
Sir Laurie said that most corporate investors were now focusing on new so-called "dedicated" investment funds in which they would back syndicates managed by one agency.

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## TECHNOLOGY

## Global gallery for Irish art

Niall McKay on plans to use the Internet to display paintings

Technology is an unlikely ally of art, but two private organisations in Ireland hope to change this. They aim to promote Irish art abroad by using digital technology to display paintings over the Internet, the international information network.

Toppei is a Dublin-based bulletin board system, which has its roots in providing information systems for social services. Its founder, Martin Maguire, wants to hold an international art exhibition over the Internet. It will be initially targeted to 15 EU capitals and extended to include Toronto, New York, and Los Angeles, featuring local artists from each city.

Fifty paintings will be scanned in at each site, stored on a central server in Dublin, and then relayed over the Internet to art galleries and museums in each city. Each site will have a high-quality printer and prints will be sold for around £35 each. Internet users will later be able to dial into the server in Dublin and download images of the paintings. Maguire also plans to publish the exhibition on CD. Another Internet provider based in Galway on the west coast has already taken steps to bring Irish art to the rest of the world.

Ireland On-line is running a pilot scheme for Kennys book shop and art gallery.

Kennys is well known in academic circles as a provider of Irish-interest books. Its customers include US universities and libraries.

Kennys is also famous among the artistic community for its exhibitions of Irish artists. Driven by the need to communicate with its US customers and a desire to promote its art exhibitions, Kennys will put a database of all its books on the Internet and offer a free service for people who want to go on-line and get a sneak preview of the next exhibition. The service provides biographies of the artists and examples of their work.

One of the artists whose work is displayed on the system is Kenneth Webb, known for his watercolours and depictions of

rural Ireland. "In the early '60s and '70s I travelled a lot between Ireland, New York, Paris, London and even Africa, but now I am not interested in all that. I have my painting and my interests here so I think this is a great opportunity to display my paintings. The beauty is that this is a visual medium. I have never used anything that has done justice to my or anybody else's paintings, but with this people can see for themselves."

Webb believes there are further advantages in the concept of exhibiting paintings on an international network. "International art has become very sterile; there is a sameness between paintings from almost anywhere in the world. It's made up of the sort of paintings that architects like. I see myself as more of an ethnic painter. I like to express the peculiarity of the landscape around me. This [Internet] will allow painters from anywhere in the world to be exhibited internationally."

Barry Flannigan, head of Ireland On-line, sees a trade-off between the quality of the image exhibited and the cost of downloading that image. "It's a balance really; most computer screens have a resolution of about 75 dots per inch but we provide 150 dots per inch and include about 250 colours, which is a long way off being good enough to print lithographically. It's just a matter of the user likes the painting then they can buy it."

Maguire has approached the problem from a different perspective, mainly because as well as providing the images over the Internet, he plans to produce CDs of the paintings. "The solution is so simple and already tried and tested. It's share ware. If people like the images then they can pay a licence fee to the artist."

Maguire has teamed up with the artist Paddy Graham, who says the potential of the Internet for artists is staggering.

"The question is whether technology will inhibit the intuitive process of an artist or simply expand it."



Want to send roses to your sweetheart, buy a new car, choose a cookbook for your mother's birthday or purchase computer software? One of the quickest, if not the cheapest, ways to make these purchases in the US is via on-line computer information and communications services.

On-line computer shopping has been around for several years, but until recently most of the products available were aimed at computer hobbyists. Now the proliferation of home computers, with about one-third of US households equipped with a personal computer, is attracting the attention of a broad variety of retailers to on-line shopping as a potentially important new sales channel.

Prodigy, the on-line service jointly owned by Sears Roebuck, the US retailer, and International Business Machines, offers products from 125 merchants including Sears, Spiegel, Patagonia, L'Espresso and the US Postal Service. On CompuServe, another on-line service, choices range from a Brooks Brothers suit to contact lenses, life insurance or a honey-baked ham. America On-line allows subscribers to offer their homes for sale.

Shopping centres are also being built on the Internet, a global network that links an estimated 20m computer users. The Internet Shopping Network, for example, offers an "electronics superstore", offering more than 15,000 computers, software and related products.

Global Network Navigator, a free on-line service for explorers of the Internet, has its own "marketplace" which is supported by advertising revenues. While nobody is predicting that computer shopping will replace every trip to the mall, on-line merchandising is expected to grow rapidly over the next few years as multimedia technology becomes cheaper and more accessible to consumers.

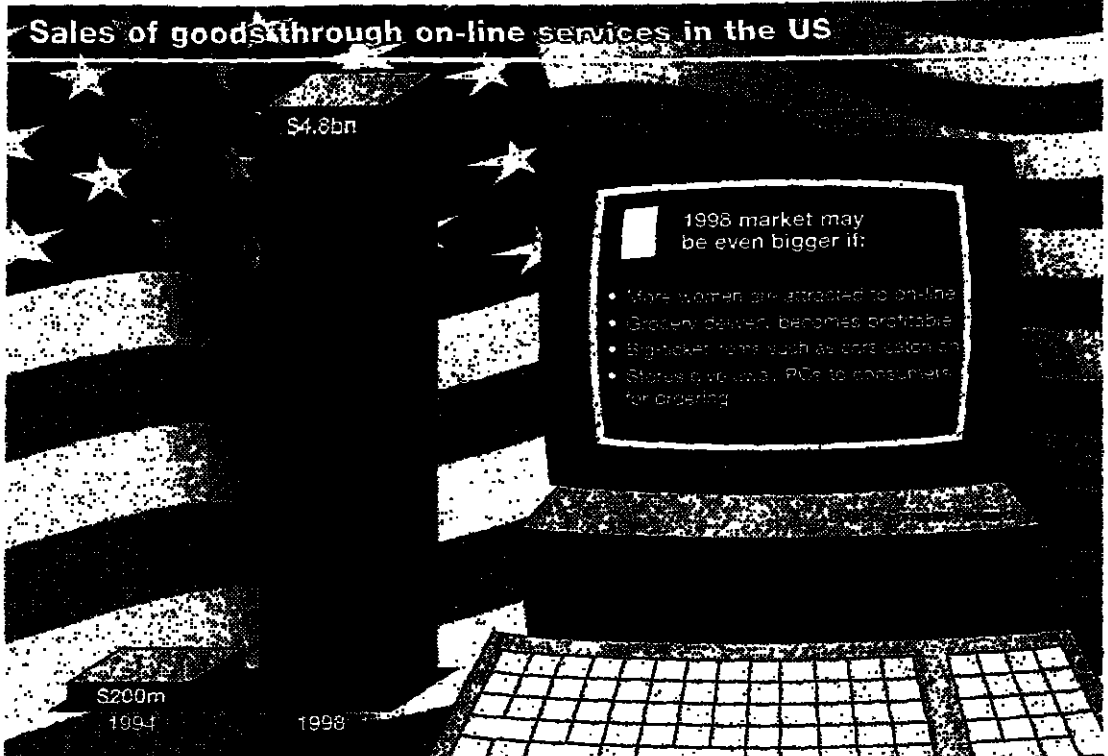
To date, on-line shopping has generated only modest sales. Less than \$200m (£132m) in goods were sold on-line in the US last year, compared with a total of \$1,500bn retail sales (of which mail-order catalogues accounted for \$35bn) and \$2.6bn in sales by television home shopping channels that take orders by telephone.

However, on-line shopping will generate about \$4.8bn per year by 1998, Forrester Research, a US market research company, predicts. Growth will be driven by the proliferation of home computers and by improvements in on-line product presentation, Forrester researchers say.

The largest US publishers and

Louise Kehoe continues a series on electronic retailing with a look at the growth of shopping by home computer

## On-line for a speedy sale



retailers are rushing to offer their products on-line, says Gene DeRose, head of research at Jupiter Communications, a market research company that specialises in the on-line services market.

"For media companies, getting on-line means instant communication, new revenue

**'Getting on-line prepares companies for all forms of electronic distribution'**

streams and access to a fast-growing, high demographic customer base hungry for new services.

"More importantly, getting on-line prepares companies for all forms of electronic distribution while selling their products today to

millions of on-line consumers."

The low costs of selling on-line are a big incentive for merchants. In contrast to mail order marketing, which has high upfront costs for the publication and distribution of catalogues, retailers selling on-line have minimal start-up costs and typically pay only about \$15,000 to \$30,000 annually to reach millions of subscribers.

The market for on-line retailing is expanding as commercial on-line computer information and communications services such as Prodigy, America On-line and CompuServe expand. At year-end 1993, there were 3.2m subscribers to these services and this number should grow to about 5.2m by the end of 1994, according to Jupiter.

And the on-line services say their shopping centres are drawing more customers every year. The number of people coming into CompuServe's "Electronic Mall" has increased 80 per cent this year and sales are up

by more than 30 per cent.

For consumers, the main attraction of computer shopping is convenience. The services draw "too busy, two-income families", say the merchants that are selling on-line. The computer can also provide new shopping opportunities for the house-bound or disabled.

**A Chicago-based venture is offering grocery shopping by computer in Chicago and San Francisco**

notes Peapod, a Chicago-based venture offering grocery shopping by computer in the Chicago and San Francisco areas.

With home computer software supplied by Peapod, San Francisco consumers can shop at their local Safeway supermarket without

leaving home. On-line shoppers can either wander through the "virtual supermarket" aisle by aisle, as they might when making a weekly shopping trip, or directly to specific types of products like coffee or cereals, or type in the name of the product they want. Personal shopping lists, with the items you buy regularly, can also be created.

Special requests, such as ripe bananas or fine ground coffee beans, can be added to the shopping list. Special offers available in the store are highlighted on-line and money-off coupons are accepted. The grocery order is delivered at the shopper's convenience.

Bargain hunters may not, however, be impressed by computer shopping. Most of the merchandise available on-line is priced at, or above, the prices available in stores and delivery charges are typically added to the selling price.

Another shortcoming of computer shopping is that it usually lacks the pictures of products that are typically found in mail order catalogues. Although some on-line shopping services make pictures of products available, it typically takes several minutes to "paint" these pictures on to a home computer screen.

Multimedia PCs are, however, beginning to make computer shopping more attractive. CompuServe, for example, recently launched a CD-Rom catalogue to augment its on-line shopping service with pictures and videos of products available. The combination of CD-Rom and on-line ordering may be a winner. Forrester's market researchers believe. While each approach has its limitations, in combination they provide the immediacy of on-line shopping and the multimedia capabilities of CD-Rom.

Today's computer shopping services are, however, quite primitive in comparison to the "interactive shopping" planned by several US cable television companies. These services will feature full video and sound and may provide customers with "agents" to help them shop.

You might, for example, have decided to purchase a sweater and trousers but be unsure about which colours would look best together. Your personal shopping "agent" could lend a hand by displaying various combinations, or even make the decision for you. It may be several years, however, before interactive television shopping becomes widely available because it will require substantial investments by the cable television or telecommunications industry in broadband networks.

In the meantime, on-line computer shopping is drawing both retailers and consumers in increasing numbers.

## PEOPLE

## Turton takes up arms for Citizens

A woman tipped as a future permanent secretary in Whitehall has been given the high-profile job of fronting the prime minister's drive to smarten up the public services. Genie Turton, deputy secretary in the environment department, becomes director of the Cabinet Office Citizens' Charter unit on July 11.

Turton, 48, is currently head of the cities and countryside group in the environment department and a member of the Chancellor's Private Finance panel.

She is one of the growing number of senior mandarins with experience of business, gained through the Cabinet Office programme for strengthening links between the public and private sectors. After a secondment to Midland Bank, she was a non-executive director of the Woolwich Building Society between 1987 and 1991.

A graduate of Girton College, Cambridge, Turton joined the ministry of transport as a fast-stream entrant in 1970. After a spell in the Cabinet Office as head of the machinery of government division in the early 1980s, she became director of heritage and royal estate in the environment department with responsibility for royal palaces such as Hampton Court and the Tower of London. In 1991 she was promoted to deputy secretary in charge of the department's housing and

urban group. She lists her hobbies as books, music and shopping.

She replaces Brian Hilton, who returns to his old department, Trade and Industry, to take charge of the research laboratories. Hilton, 54, was spirited from the Ministry of Agriculture, Fisheries and Food in 1991 to create a unit that would implement Major's Citizen's Charter. He says he has hugely enjoyed the task of giving life to the charter: "It is now common currency in the language. It is inconceivable that we should ever return to the days when there were no standards of service in the public sector, and nobody cared whether performance targets were met."

His appointment is an indication that the BBC is trying to strengthen its popular drama and maintain its ratings on BBC1.

Meanwhile, the LWT board is in the process of reviewing the top management structure of the company and says a key objective is to facilitate the development and growth of LWT's programme production business.

Elliot, who has worked at LWT for the past 22 years and played a leading role in developing programmes such as London's Burning, Agatha Christie's Poirot and The Chancer, is moving to the BBC as head of drama series. The head of the drama group is Charles Denton, himself a former ITV executive.

Elliot, 50, is a close friend of John Birt, the BBC director general but it is believed that

Birt was not involved in the appointment. Elliott was approached by a group of BBC executives including Alan Yentob, controller of BBC1.

He made it clear yesterday that he was not leaving because of the Granada ownership; he had actually begun his career with Granada.

After working for LWT for more than 20 years, he had decided some time ago that he would like to change his job but for the past four years was prevented by LWT's "golden handcuffs" from moving.

As the former head of drama and director of programmes, Elliott benefited greatly from a

management share scheme; he made around £3.5m from it. He says he will miss LWT greatly, but adds "the job the BBC has asked me to do is an exciting challenge that I could not resist."

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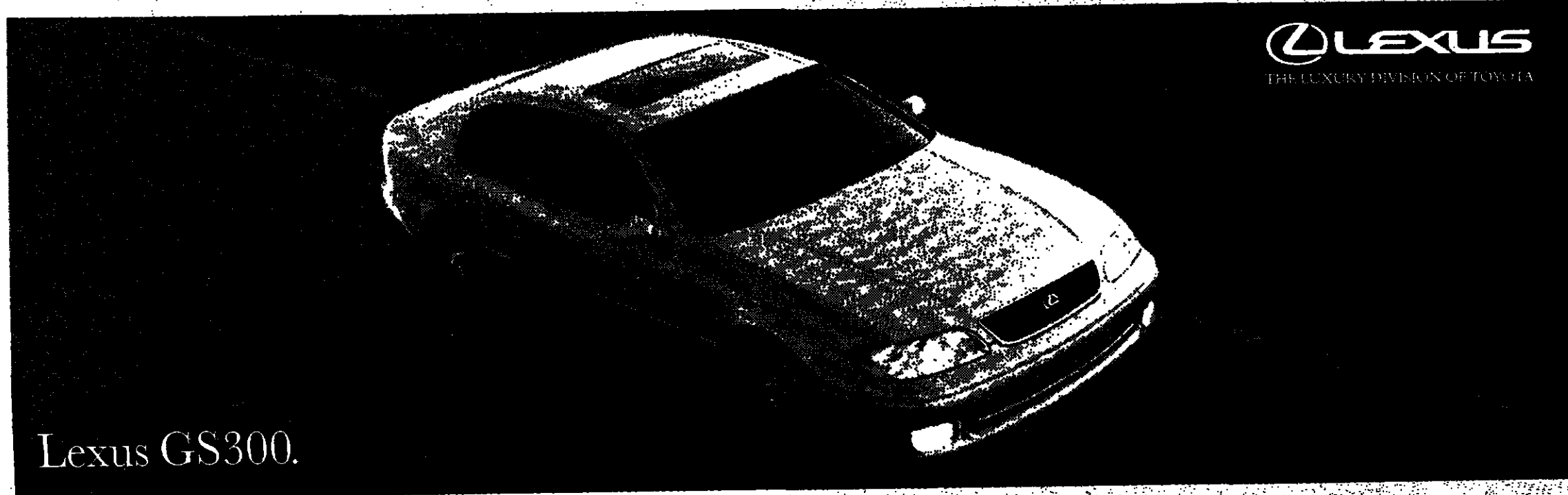
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## MANAGEMENT: MARKETING AND ADVERTISING

## Charged up over competition law

David Waller reports on why American Express's credit card promotion hit legal barriers in Germany

Produce a credit card in a German shop or restaurant and it is likely that the proprietor will look at you with consternation, before explaining that plastic is *strengst verboten* and that D-Marks or Eurocheques are the only means of payment allowed.

There are just 8.9m credit and charge cards in Germany, compared with 37m in the UK, making Germany one of the least developed plastic card markets among Europe's leading economies. Relative to the size of the economy and its 80m population, Germany is the most important plastic card market in Europe, says Colin Lorigan, senior counsel for Europe at American Express International in Frankfurt.

Cracking the market is no easy matter, though, and not only

because of deep-seated cultural hostility to credit and charge cards. Marketing tactics which are standard in other countries can hit legal barriers in Germany, as American Express found after launching a promotion for its product in November last year.

### The amendments passed by the German parliament leave American Express 'stranded'

That month, cardholders in Germany received with their monthly statement a brochure outlining American Express Membership Miles, a promotional scheme which the company has introduced in the US and other European countries. The scheme offered members bonus points for each D-Mark they spent on the card. These points could be used towards air travel with three airlines and hotel accommodation.

Although the programme was successful - spending by cardmembers enrolled in the scheme rose by 50 per cent - the promotion had to be quickly halted. Within a week of the

launch, American Express was sued by an organisation called the *Zentrale zur Bekämpfung unlauteren Wettbewerbs*, the Centre for Combating Unfair Competition, a Wiesbaden-based body which has policed Germany's competition law since early this century. The company was charged with breaching the so-called *Zugabeverordnung*, a law which prevents the offer of free gifts in connection with the sale of goods.

The *Zugabeverordnung* goes hand in hand with the *Robatgesetz*, forbidding the offer of certain types of discounts, and is connected with the *Ladenschutzesetz*, which limits shops' opening times.

All three laws were introduced in the early 1930s to protect small shopkeepers from free competition, and are still popular with shopkeepers today. Last year the government unveiled plans to abolish all three as an unnecessary impediment to competition.

But so great was the uproar from shopkeepers and unions that Chancellor Kohl intervened personally to ensure that *Ladenschutzesetz* would remain until after this autumn's elections. Contrary to the government's original plans, the *Zugabeverordnung* and the *Robatgesetz* were not abolished but merely amended.

The amendments, passed by the German parliament last week, leave American Express "stranded", complains Lorigan. Under the revised *Robatgesetz*, service providers such as the Bundesbahn, the federal railway network, or Lufthansa, the soon-to-be-privatised German airline, can offer discounts to their own customers. But American Express is caught by the *Zugabeverordnung*, which still holds that the offer of another company's products (in this case, flights) is not permitted as a means to boost your own sales (in this instance, spending on the American Express card).

Lorigan said that American Express introduced the product

with launch expenses of at least DM1m - knowing that there could be legal difficulties. But it had hoped that the *Zugabeverordnung* and the *Robatgesetz* would be abolished.

The legal structure of the offer was also designed to take advantage of EU legislation guaranteeing free trade of goods and services across European borders: the offer to German cardmembers is technically administered out of France.

But recent European Court case law has gone against American Express, suggesting that foreign companies operating in a second country cannot claim that their freedom to trade is being muzzled if domestic competitors suffer the same restrictions.

While American Express prepares an intensive lobbying campaign in the US and Europe

### Marcus Kisseler says the American Express scheme is in breach of the *Zugabeverordnung*

to support its case, Lorigan claims that it has suffered discrimination at the hands of the *Zentrale* because it is a foreign company. He notes that the bonus scheme started by Lufthansa - the Miles and More promotion which has attracted 900,000 members since last year - was permitted by the *Zentrale* last year even when it was manifestly in breach of the *Robatgesetz*.

Marcel Kisseler, head of the *Zentrale*, dismisses the claim. He says the American Express scheme is in breach of the *Zugabeverordnung*.

After an unsuccessful appeal against the original lawsuit, American Express is now permitted to continue with the service, but not to advertise it. This means that it is effectively dead as a promotional tool, and will remain so for years as litigation with the *Zentrale* continues.

At least there was no army of aggrieved consumers. But the public relations crisis facing Norwich Union this summer in the wake of its highly embarrassing regulatory troubles has been serious by any standards.

The problem first surfaced publicly on 29 March when the company, one of the UK's largest insurers, announced that its 600-strong direct life insurance and pensions sales force, as well as some 200 sales agents in companies acting for the insurer, were being temporarily suspended for retraining.

That statement came some months after NU had identified serious weaknesses in its selling process which it had begun working to rectify. Unfortunately for the company its initial plans were overtaken by Lauto, the regulator for the life insurance industry, which insisted on more radical remedial action, including taking the sales force off the road for a month.

The March announcement meant that NU had to deliver an effective training programme within a short space of time. It then had to cope with another blast of bad publicity at the end of April, when Lauto imposed a record fine of £300,000 on the insurer for its failure to meet proper standards.

The new training programme is made up of three elements. The first entails sitting the Financial Planning Certificate, the basic qualification for independent financial advisers, which is administered by the Chartered Insurance Institute.

The second is a test of knowledge of Norwich Union products, covering both regulatory issues and the products themselves.

The third test involves a residential sales skills course, based on videotaped role play: a sales agent interviews a colleague acting as a client and has to gather enough information to make a recommendation. The following day there is another videotaped interview, in which the recommendation is put to the "client".

While the sales skills assessment has been praised by those who have taken part in it, NU has faced some criticism from participants for relying too much in the rest of the programme on sales agents studying by themselves and not enough on lectures.

Gary Cornish was among the 60 per cent of NU sales agents who passed all elements of the course at the first attempt. "The [sales skills] course was very well done. Before that course it was ludicrous, we were just told to read the manuals," he says.

One extra difficulty faced by NU was managing the introduction of a single training programme for both the direct sales force and appointed

## Norwich Union's 800 salesmen suspended

Norwich Union, one of Britain's biggest insurers, has imposed a £300,000 fine on its 800-strong direct life insurance and pensions sales force, as well as some 200 sales agents in companies acting for the insurer, for failing to meet proper standards.

## Norwich Union fined £300,000 by life watchdog

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## £300,000 'misconduct' fine on insurance giant

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## Norwich Union suspends pensions direct sales force

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# Back from the brink

Alison Smith on Norwich Union's troubles in an increasingly tough regulatory market

representatives - firms of financial advisers who do not work for NU directly but act solely for the insurer. Previously there had been two.

Philip Scott, NU life and pensions general manager, says that the appointed representatives, used to running their own businesses, were in some cases less inclined than the direct sales force to be told by NU how they should sell life

is sharply critical of the way in which NU reached this point.

"We were very angry, particularly because we felt it was avoidable," he says. "There were enough people telling NU they were not happy with the quality of training." He believes the failure to act earlier was a symptom of a more general malaise of "corporate arrogance".

Scott and Jayne-Anne Gadhis, who set up the training arrange-

at their last chance lose their authorisation.

Even among the first successful sales agents, there have been mixed feelings as they meet negative reactions from customers.

"When I first came back I was very pleased to have passed all the exams, but that has been followed by several lows," says Stewart Davidson, who joined NU last autumn, as he talks of decisions deferred and customers who have gone elsewhere in the meantime.

Sainty reports some negative feedback from potential, if not existing, customers, though he sees a longer-term benefit from the improvements in the sales process.

"The next couple of months will inevitably be a bit sticky, but then we will be back beyond where we were: September is my target date for getting back into full swing," he says.

NU can take comfort from knowing that although it has been the first to face this difficulty, in an increasingly harsh regulatory climate, it is unlikely to be the last life insurer to do so.

## Some sales agents have met negative reactions from customers

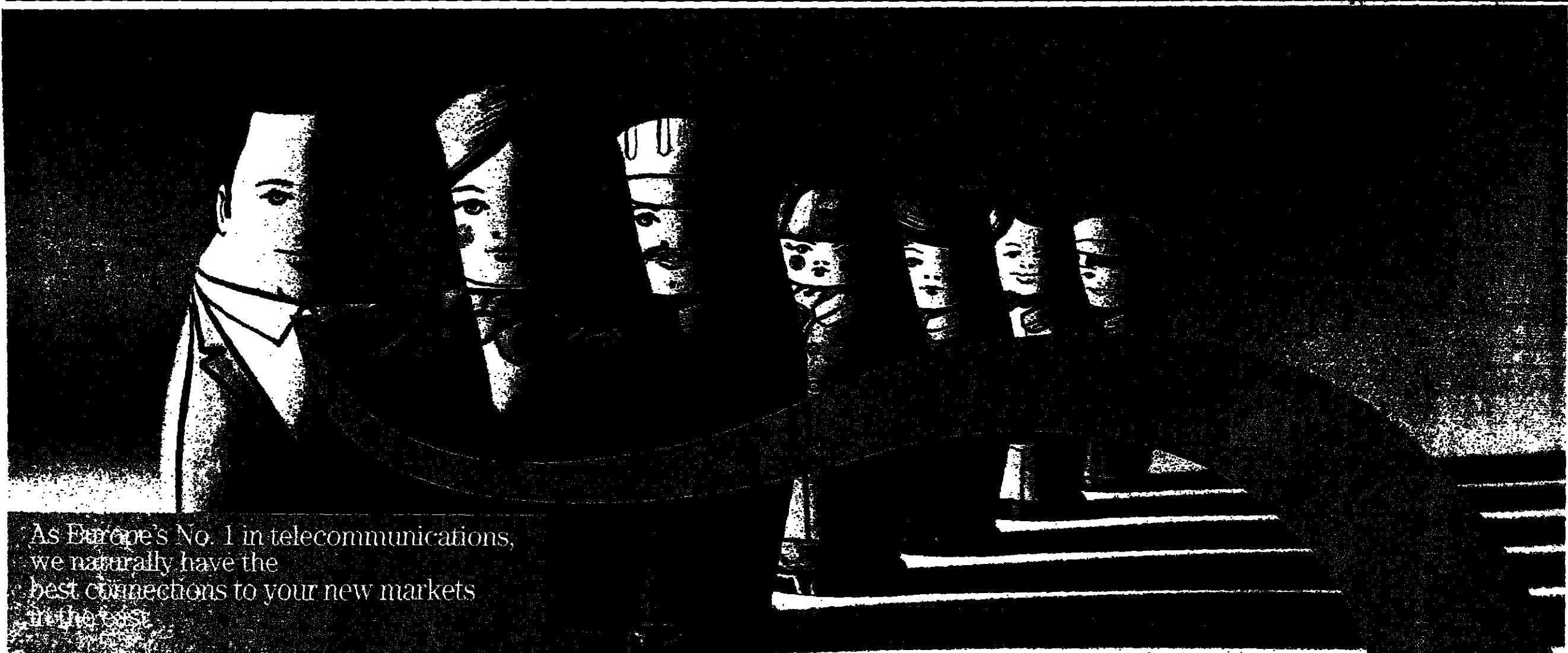
insurance and pensions.

Significantly perhaps, the pass rate for all elements of the training programme at the first attempt was lower among appointed representatives - at 40 per cent.

Robin Sainty, who runs Integrated Business Analysis which acts for NU, has a rather different perspective. His team of advisers has all passed the training programme and is enthusiastic about the changes to the training. But he

emphasise the benefits to those who have passed the programme. "The vast majority of them are proud of their achievement because they know they have been through a testing process," Scott says.

Whether that sense of pride is as strong for those who manage to succeed only at later attempts remains to be seen. Over the coming weeks the final stragglers will return to selling, while those who have failed



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Cinema/Nigel Andrews

# Cautionary tales of the cultural divide

The tug-of-war custody hearing over the British film industry continues this week, with important new testimony from both sides.

The evidence produced on behalf of the first party, Mr America, is the movie *Shopping*. Paul Anderson's urban thriller - a loud, dark-toned, pacy British film made in the style of that currently popular retro genre, "film noir" - will be used to show that Hollywood has been powerfully influential in the forming of modern UK screen culture.

But Miss Europe, who was of course Mr America's common-law partner until a recent quarrel involving a Gatt, will claim that John Schlesinger's *The Innocent* proves the opposite: that this version of Ian McEwan's Cold War novel set in moody murder-prone Berlin shows that the last best hope for British film is an alliance with our friends across the Channel. Look at the evidence. Exhibit A: British director and leading man (Anthony Hopkins). Exhibit B: Italian leading lady (Isabella Rossellini). Exhibit C: German locations and co-funding.

Each side is then expected to attack the other mercilessly for its poor record of care and guardianship. Mr America will accuse Miss Europe of involving Britain in the deadly quagmire of the "Euro-pudding" and will point out certain specific shortcomings in *The Innocent*. Its peculiar *compote* casting for starters. Why is Sir Anthony Hopkins playing an American army officer - with an appalling sub-James Cagney accent - while America's Campbell Scott (better accented) plays the young British telephone engineer Leonard, brought to Berlin

THE INNOCENT (18)  
John Schlesinger

SHOPPING (18)  
Paul Anderson

BEVERLY HILLS COP 3 (15)  
John Landis

ROBOCOP 3 (15)  
Fred Dekker

in 1955 to help with an anti-Soviet surveillance scheme?

McEwan's novel was a bizarre blend of Le Carré spy stuff with sex, passion and murder. When Leonard falls for the German Maria (played in the film by the Italian Miss Rossellini), a nasty encounter with her husband ends in death and dismemberment. "What will the lovers do with the body?" becomes the novel's big question, until finally the object is folded cunningly, ironically into the espionage plot.

Schlesinger's film is best when most intimate. Scott excels as the fussy, virginal communications boff in marooned in a cut-off world - his dingy love nest - with the distraught, high-strung girl and the carnage she brings him. But whenever the film moves out into the "real" world, all reality ceases. Schlesinger promises much with a virtuoso opening tracking shot through a crowded, babbling hotel lobby, but then the individual voices start. Hopkins' "You dirty rat" American; a number of German supporting actors dubbed into transatlantic; and finally Miss Rossellini, who is fine right up to the last scene when she too is tipped

into the open air. Her scene of foggy-voiced tearful parting on a foggy airfield seems like a crazed reprise of her mother's finest hour in *Casablanca*.

After Mr America has had his say about *The Innocent*, and the mish-mash of vagabond ingredients typical of Euro-puddings, Miss Europe will have her say about *Shopping*. She will attack the delinquent tendencies of an ex-colonial culture based on the worship of crime and violence. *Shopping* which stars Sadie Frost and Jude Law as two car-stealing "ram-raiders," who like to enter shops through the shop window, is, she will point out, like *Bonnie And Clyde* meets *Absolute Beginners*, possibly over the prone body of *Blade Runner*.

Over-the-top visual atmospherics - mist and smoke, Stygian chiaroscuro, drizzle-hazed street lights - are wedded to deaf script-lines. The exchange earning the largest giggle at the press show came when Mr Law ventures to plant a tentative kiss on Miss Frost's lips and she says "Cut it, Joe, this is the 90s. Sex isn't safe anymore." Nor, in the wrong hands, is portentous apocalyptic dialogue. The film is a second-rate, second-hand thriller in debt, far beyond repayment, to its Hollywood paradigms.

The judge presiding over the custody hearing will admit that he finds this case difficult to resolve. Each side, America and Europe, has powerful arguments concerning the decrepit artistic standards of the other. After long consideration, though, he has made his decision. He will award custody to neither party. He will instead urge and if necessary compel the British film industry to become self-reliant. For a short time it will be made a ward



'Bonnie and Clyde' meets 'Absolute Beginners': Sadie Frost in Paul Anderson's 'Shopping'

of court. Then it will be required to make its own way in the world with no more than a minimal reliance on any other nation.

It will not be allowed to beg at Number Ten Downing Street, nor to spend its life creeping towards the EC or US for cultural resuscitation. Soon rather than late it must learn how to please and interest other cultures and societies, without compromising its own culture or treating its own society as a charity institution.

After all (sums up the judge), if *Four Weddings And A Funeral* and *The Crying Game* and *A Fish Called Wanda* and *My Beautiful Laundrette* can do it, so can everyone else. Case dismissed.

In the week of *Beverly Hills Cop 3* and *Robocop 3*, what better time to distance ourselves from Hollywood? When sequel sagas hit stage three, three things happen. Script invention plummets. Plots reach for tortured novelties of location or motivation: in *BHCP3* a theme park, in *RS* a whole lot of inner-city anarchy requiring emergency policing. And favourite actors drop out.

So no Peter Weller as Robocop. His lips and jaw - nothing else being visible below the hydraulic whining visor - are replaced by those of Robert Burke. And over in *Beverly Hills* no John Ashton, who for two films played fat-souled police sidekick (alongside tall-slim Judge Reinhold) to Eddie Murphy's

grimacing dementia praecox case from Detroit.

Mr Murphy has now been seconded to California so often that we wonder why he does not keep a hotel room there. *Beverly Hills Cop 3* is an exhausted replay of the old tics. Its desperation is most evident in the wheezing forth of Bronson Pinchot, who stole *Cop 1* with his fluttery, shrieking art gallery owner and who is asked to do it again here - no, to overdo it - so that he becomes victim rather than saviour.

*Robocop 3* features another cop called Murphy (hero's name not performer's) and also begins in Detroit. But this film has the sense to stay there. Here is the much-loved Motown sound: not Diana Ross but

the music of crashing cars, screaming extras and our hero's bullet-zapping bio-metallic arms. Here too, for 20 minutes of tolerable respite, is Hollywood's attempt to force the futurist vision of Lang's *Metropolis* into intimacy with the weaponry of the *Star Wars* era. Then, like the other film, it tails spins into diminishing circles.

Should they not have combined the two trequels and given us *Beverly Hills Robocop*? That way familiarity could have been spiced with hybridisation. And we would have warmed to the idea of a knockabout black cop clamped in a head-to-toe metal casing from which only the best wits and witticisms would be allowed to emerge.

Theatre/Alastair Macaulay

## Storey's 'Home' revived

You should have seen it with Gielgud and Richardson: the people who said that two years ago about David Leaver's staging of Pinter's 1976 *No Man's Land* can say it again now about his staging of David Storey's 1970 *Home*. They are, of course, right - yet they miss the point. *Home*, like *No Man's Land*, is less substantial without its great original double-act, but it still holds together remarkably well. Its new cast, led by the well-known double-act of Paul Eddington and Richard Briers, completely holds the attention, shifting between comedy and poignance with consummate ease.

This is the more impressive, since nothing happens in *Home* more eventful than a minor character lifting furniture and removing it from the stage. The "home" of the title, the play gradually allows us to realise, is an institution for the mentally disturbed. A large part of the play's comic entertainment consists of wandering small talk between the two men, and a large part of its painful impact lies in what they leave unsaid - with the anguish they can never bring themselves to address in words.

Harry and Jack are educated and chubbable upper-middle-class types, so sensitive that, if someone else so much as suggests that a spade might be a spade, they hasten to discuss the weather. The play's most striking irony lies in their conversations with the dissimilar Marjorie and Kathleen, who are lower-class, outspoken, quite prepared to air sexual, lavatorial, and psychological issues - and thereby

expose the pathetic evasiveness of the two men.

It was Gielgud, as Harry, whose performance left the most indelible and affecting impression on me when in my teens I saw a TV broadcast of the original cast. Yet Paul Eddington's account of the same role is so fully alive to the larger mental issues that dwell amid the details of the play, that Gielgud's ghost never haunts the stage: an exorcism even more successful than his account of the Gielgud role in *No Man's Land*.

Eddington's Harry is a ravaged shell. It helps that he now looks far more haggard than two years ago; more vital, however, is the beautiful weight of sorrow he conveys. It is there before he speaks a word, simply as he closes his eyes on first sitting down alone. And it is there at the end in the hush in which he says "The sun has set". His mastery of comedy surfaces to marvellous effect in tiny crises of uncertainty, as when Jack asserts that a friend of his "was introduced to George VI at Waterloo". With utter tact, yet also with appalled bewilderment, Eddington simply echoes "Waterloo?" "The station", Jack explains, and relief returns.

Every device in Richard Briers's armoury works to characterise Jack to fine effect: light charm, merry chuckle, mouth hanging open in pleasant stupidity, ingratiating cuteness, spitting delivery of ordinary banter. Briers does nothing wrong, but his way of tackling the role's inner misery is tyewright. Richardson brought to the role, among other

things, gravitas; and my ear kept telling me how he surely delivered the lines. Briers's mental pain remains hidden from us, as Eddington's does not. Nor is anything in Briers's performance a surprise.

The roles of Marjorie and Kathleen are harder to achieve with complete success. Storey gives them a kind of verbal shorthand, with few pronouns or verbs, that seems mannered now. This apart, both Brenda Bruce and Rowena Cooper catch the contradictions that make each role interesting. Bruce's Marjorie is hard, sceptical, only sometimes revealing the tenderness that has made her sometimes wait for days; Cooper's Kathleen hardly ever lets a radiant grin leave her face, even as she talks of her several suicide attempts.

In terms of the larger history of modern theatre, *Home* is not a momentous play. It has clear echoes of Beckett (*Godot*, *Happy Days*), and its treatment of mental disturbance is scarcely radical. But so what? It is written with such skill that the attention never flags, and its ambiguity of tone is compelling. I have a few minor cavils about Leveston's staging. (Some pauses should have been weightier, the women are sometimes too close to caricature, the role of Alfred is miscast, and one change of lighting says too obviously "The mood darkens".) But everything about this 24-year-old play is alive; the ensemble playing is exemplary; and Eddington gives one of the finest performances now before the London public.

At Wyndham's Theatre

Concert/Richard Fairman

## Sanderling's Brahms

The gigantic themed festival that towered over London's musical life in the late 1980s have disappeared. In the present economic conditions the nearest one comes to anything similar is the short series, which is never so adventurous: the Philharmonia has scheduled a Beethoven symphony cycle next season and a Brahms cycle to end this one. These would not be of any import, were it not for the conductors - Harnoncourt for the Beethoven, Kurt Sanderling for the Brahms. In these last years Sanderling's mastery became ever more subtle and unpredictable, but it is there nonetheless. The Philharmonia, significantly Klemperer's old orchestra, played well for him.

The First Piano Concerto was more problematical. Sanderling set out at a magisterial pace, sinking down foundations of granite. Unfortunately, the pianist, Mitsuko Uchida, needed speed above all to compensate for her lack of weight. The result oscillated uneasily between one type of Brahms and another, hers headlong and shallow-toned, his patient and massive. Despite some exquisite moments in Uchida's slow movement, I know whose side I was on.

What a splendid move on the part of the Philharmonia to bring him to London for these four concerts, featuring the

symphonies and the concertos. In Tuesday's opening programme he held the First Symphony to a steady pace, though without digging into the rhythms as trenchantly as he used to. He also kept the Philharmonia's enthusiastic tempoist firmly under wraps.

There was to be no over-emphasis, no hammering home of climaxes too early. Only a conductor who had years of experience would dare restrain the symphony for so long, holding off the resolution right until the triumphal brass chorale of the finale. In these last years Sanderling's mastery became ever more subtle and unpredictable, but it is there nonetheless. The Philharmonia, significantly Klemperer's old orchestra, played well for him.

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Sponsored by AFG, Automotive & Financial Group. The other three concerts are on June 26, 28 and 30



Compelling: Richard Briers and Paul Eddington

## INTERNATIONAL ARTS GUIDE

### ATHENS

**ATHENS FESTIVAL**  
The international programme of the 1994 festival opens on Sat with a Three Divas concert featuring Grace Bumbry, Katia Ricciarelli and Lucia Valentini-Terrani. Riccardo Chailly and the Concertgebouw Orchestra give concerts next Mon and Wed, featuring Tchaikovsky's First Piano Concerto (Lazar Berman) and symphonies by Brahms and Mahler. Other visitors over the next two months include the Peter Hall Company production of Hamlet, Cristina Hoyos Ballet and the Vienna Philharmonic, St Petersburg Philharmonic and Berlin Symphony Orchestras. Most events take place at the Odeon of Herodes Atticus (Athens Festival, 4 Stadiou Street, in the arcade. Tel 01-322 1459/01-322 3111)

### BARCELONA

Richard Borynne conducts performances of Lucia di Lammermoor at Palau Sant Jordi on June 28, July 2, 6 and 10, with

cast headed by Edita Gruberova and Alfredo Kraus (018 9122)

### FLORENCE

**MAGGIO MUSICALE**  
Samy Bychkov conducts concert performances of Shostakovich's Lady Macbeth of Mtsensk tonight and Mon at Teatro Comunale, with cast headed by Tatyana Poloskova and Jan Binkof. Lorin Maazel conducts Pittsburgh Symphony Orchestra on Tues in works by Rakhmaninov and Ravel. The Maggio Orchestra brings the festival to an end next Thurs and Fri with Beethoven's Ninth Symphony (055-277 9235)

### GENOA

**Teatro Carlo Felice** Sat and Sun afternoons, next Tues evening: Gianandrea Gavazzeni conducts final performances of Filippo Crivelli's production of Leoncavallo's operetta La reginetta delle rose, with cast headed by Denia Gavazzeni Mazzola and Luca Canonici (010-589329)

### LONDON

**THEATRE**  
● The Cryptogram: world premiere of David Mamet's new play about the relationship between a woman, her child and a male visitor. Stand-up comedian Eddie Izzard makes his serious acting debut alongside Lindsay Duncan. Now in previews, opens next Wed (Ambassadors 071-836 6111)  
● Glengarry Glen Ross: Sam Mendes directs David Mamet's 1983 all-male classic about real estate

salesmen whose insecure egos thrive or perish in the claustrophobic atmosphere of a downtown office. Just opened (Dorner Warehouse 071-867 1150)

● The Birthday Party: Sam Mendes' revival of Harold Pinter's second play features Bob Peck, Anton Lesser, Dora Bryan and Nicholas Woodeson. In repertory at the Lyttelton with Richard Eyre's new production of Sweet Bird of Youth, Tennessee Williams' 1959 drama (National 071-928 2252)  
● Murder in the Cathedral: Stephen Pinnott directs a new RSC production of T.S. Eliot's greatest play. In repertory with Ibsen's Ghosts, directed by Katie Mitchell (The Pit 071-638 8861)

● Arcadia: Tom Stoppard's witty and mind-expanding masterpiece, combining intellectual debate with depth of feeling. Roger Allam and Joanne Pearce head Trevor Nunn's new cast in this West End transfer of a production originally staged at the National (Haymarket 071-930 8800)

● The Queen and I: Pam Ferris plays the Queen in Sue Townsend's stage version of her bestselling novel which places the Royal Family on a housing estate. Directed by Max Stafford-Clark (Foyals Court 071-730 1745)

● Copacabana: Barry Manilow's musical opens tonight with Gary Wilentz in the lead role (Prince of Wales 071-830 5867)

● Fiddler on the Roof: Topol returns to play Tevye in this 12-week season of the Book and Harnick musical. Now in previews, opens next Tues (London Palladium 071-494 5021)  
● A Midsummer Night's Dream:

Deborah Paige directs Shakespeare's supernatural tale in the open-air setting of Regent's Park (Open Air 071-486 2431)

**OPERA/DANCE**  
Covent Garden The Royal Ballet gives the world premiere on Sat of Ashley Page's Fearful Symmetries, set to music by John Adams, as part of a mixed bill including MacMillan's Dances concertantes and Winter Dreams.

There are also performances of Anthony Dowell's staging of the Baryshnikov production of Don Quixote next Wed, Thurs and Sat. The Royal Opera has a new production of Aida, conducted by Edward Downes and staged by Elijah Moshinsky, with cast headed by Cheryl Sander, Luciano D'Amico, Alexandru Agache and Robert Lloyd (071-240 1068)

Coliseum ENO's season runs till July 2 with performances of Jenafa, La bohème and Peter Grimes (071-836 3161)

Sadler's Wells London City Ballet presents Coppelia tonight, tomorrow and Sat. The Cape Ballet, a multi-racial dance group from South Africa, opens a two-week season on Tues with the first of two programmes (071-278 9916)

**CONCERTS**  
South Bank Centre Tonight: Midnight Follies Orchestra pay tribute to Adelaide Hall of the Cotton Club. Sat: Mark Shannahan conducts Forest Philharmonic in Berlioz's La Damnation de Faust, with Adrian Martin and Della Jones. Sun, next Tues and Thurs: Kurt Sanderling conducts Philharmonia Orchestra in works by Brahms. Wed: Edward Downes conducts BBC Philharmonic in Delius, Holst and Elgar, with cello

soloist Lynn Harrell (071-928 8800)

**MADRID**  
Teatro Lirico La Zarzuela Tomorrow, Sun, next Tues: Antoni Ros Marba conducts José Carlos Plaza's production of Wozzeck, with cast headed by Gerardo Vera, Anja Silja and Graham Clark. Mon: Maria Bayo song recital (01-429 8225)

### MILAN

**Teatro alla Scala** Tonight: Pierre Boulez conducts Ensemble InterContemporain in works by Varese. Mon: Wolfgang Sawallisch conducts revival of Giorgio Strehler's production of Die Entführung aus dem Serail, with cast headed by Mariella Devia, Barbara Kilduff, Kurt Moll and Kurt Stret (opened June 28, July 1, 4, 5, 7, 9, 12). Next Tues and Thurs: Rigolotto (02-7200 3744)

### RAVENNA

Highlights of this year's Ravenna Festival include a concert tomorrow by the Dresden Staatskapelle under Giuseppe Sinopoli, the Scala Orchestra under Wolfgang Sawallisch on July 3, a staging of Bellini's Norma starring Jane Eaglen on July 16 and performances of Verdi's Requiem conducted by

Riccardo Muti on July 20 and 22 (0544-32577)

### SPOLETO

The 1994 festival opened last night with a Poulenc double-bill - his surreal opera Les marmelles de Tidesles paired with a reconstruction of Nijinska's original choreography for Les Biches (opened June 25, 29, July 1, 3, 6, 8). Wozzeck opens on July 2 in a staging by Günter Krämer, conducted by Christian Bades. The dance programme features Ballet National de Nancy et de Lorraine (opening tonight with guest soloist Alessandra Ferri), Martha Graham Dance Company (June 29-July 3) and Roland Petit's Ballet National de Marseille (July 5-9). The drama programme includes the St Petersburg May Theatre and Arthur Miller's The Last Yankee (Tickets and information from Teatro Nuovo 0743-40265)

### TURIN

**Teatro Regio** Tonight, Sat, Sun afternoons, next Tues afternoon and Thurs: Bruno Campanella conducts Roberto De Simone's production of La Cenerentola, with cast headed by Jennifer Lamore/Susanne Mentzer, Rockwell Blake/Mario Zeffiri, Enzo Dara and Michele Pertusi (011-881 5214)

### VERONA

**Arena** The season opens on July 8 with Bellini's Norma. This year's programme also includes La bohème, Otello, Aida and Nabucco, plus a gala for Plácido Domingo on August 9 (045-596517)

## ARTS GUIDE

**Monday:** Berlin, New York and Paris.  
**Tuesday:** Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.  
**Wednesday:** France, Germany, Scandinavia.  
**Thursday:** Italy, Spain, Athens, London, Prague.  
**Friday:** Exhibitions Guide.

**European Cable and Satellite Business TV**  
(Central European Time)  
**MONDAY TO FRIDAY**  
NBC/Super Channel: FT Business Today 1930; FT Business Tonight 1730, 2230

**MONDAY**  
NBC/Super Channel: FT Reports 1230.

**TUESDAY**  
EuroNews: FT Reports 0745, 1315, 1545, 1815, 2345

**WEDNESDAY**  
NBC/Super Channel: FT Reports 1230

**FRIDAY**  
NBC/Super Channel: FT Reports 1230  
Sky News: FT Reports 0230, 2330

**SUNDAY**  
NBC/Super Channel: FT Reports 2230  
Sky News: FT Reports 0430, 1730;



## Enigma at the heart of the bloke

**H**e's blokish, with a half-fellow-well-met quality, always popping up on our television screens or disturbing a quiet breakfast by trying to outshout the presenter of BBC radio's *Today* programme. But Kenneth Clarke, Britain's chancellor, is still a puzzle.

He defies easy categorisation. He hails by tradition and intellect from the left of the Conservative party, but has nevertheless spearheaded some of the most bruising confrontations between government and recalcitrant employees such as doctors, ambulance workers and teachers. Although a stickler for upholding the powers of Parliament, he has facilitated a steady increase in the Bank of England's say in monetary policy. Then there is the sartorially challenged Clarke with his famously crumpled suits and suede Hush Puppy shoes. These are shouting out a message of some sort: but what?

This book, in spite of perhaps because of being "completed with Mr Clarke's full co-operation", leaves the reader still unclear as to what really makes this ambitious politician tick. However, author Malcolm Balen, the editor of BBC TV's *News O'Clock*, has provided the next best thing in this readable account of the ups and downs in a career that put Clarke in charge of the UK's health, education, law and order and now the Treasury.

It would be a heroic story if John Major had not already overcome greater handicaps in his background to become prime minister. But the tale of the Nottinghamshire watch-repairer's son (from what Tory canvassers would identify as a C2 skilled working-class family) who resolved early in life to become an MP and who has climbed high enough up the Tory party's greasy pole to eye the prime minister's job is still sufficiently unusual and topical to be worth telling.

Of obvious importance were the scholarship successes to the upmarket Nottingham High School and to Cambridge, and the discovery of like-minded souls at university who were later to form a "Cambridge mafia" of friends and rivals in the Tory governments of the 1970s and 1980s. A

**KENNETH CLARKE**  
By Malcolm Balen  
Fourth Estate, 312 pages,  
hardback £18.99

stable family life, which Clarke takes care to keep out of the public eye, and outside interests such as jazz have doubtless given him greater staying power than many politicians. But the story is not without its dark moments. Clarke's mother developed a drink problem when he was in his teens and, according to his younger brother Michael, died an alcoholic. While Clarke's childhood appears to have been happy enough, Balen suggests that he started early in life to fashion a tough outer shell.

Many people in these pages describe Clarke as "self-contained". Balen says his subject is "a gregarious man who is intensely private" and "an uncomplicated enigma". For Michael Clarke, "Ken is like an iceberg. Seventy five per cent of him is underwater. To get where he's got, he must be like that. I'm not saying his personality is a facade - it isn't - but there's a very large inner person. He can be very emotional. But he tends to detach himself."

That submerged 75 per cent no doubt helped Clarke through the frustrations of the 1980s. As not "one of us" he failed for many years to prosper under Mrs Thatcher. He only entered the cabinet in 1985 and then as Commons spokesman for the employment secretary, Lord Young. Once in high office, Clarke developed a talent for getting into fights.

A love of controversy had always been there. The book recounts how, as head of the Cambridge University Conservative Association, Clarke had caused an almighty row by inviting Oswald Mosley, the head of the British fascists in the 1930s, to speak. He rode out the storm but it delayed his rise to the politically important post of president of the Cambridge Union, the students' debating society. Similarly, Balen says Clarke's later battles with doctors and ambulance workers "set back his career and ultimately cost him a place in the leadership race

when Mrs Thatcher resigned".

That Clarke is now chancellor is a measure of the policy failure that culminated in sterling's exit from the European exchange rate mechanism and the presentational ineptitude of Norman Lamont, his immediate predecessor.

Balen's book, which finishes with Clarke's tax-raising Budget of last November, wisely steers clear of predicting whether the chancellor will move next door to Number 10 Downing Street. For Clarke's performance at the Treasury will be crucial in determining whether he will one day succeed John Major as prime minister or leader of the opposition.

Clarke has so far been both lucky and skilful in running his second (after the Home Office) of the three great offices of state. From the hapless Lamont, he inherited an economy with low inflation and low interest rates that was recovering from recession. He had the guts to tackle the problem of the annual £50bn deficit head-on through unpopular tax rises.

True, "Clarke" took a pounding earlier this year on the Westminster gossip exchange when the import of the tax increases seemed to be the economy still growing and the setback that John Smith's death caused to the leadership hopes of Michael Heseltine, trade and industry secretary. Clarke's stock appears to be rising again - at least within the Tory party.

The nagging worry, which Balen's book does nothing to dispel, is whether Clarke is an accident waiting to happen. The book chronicles how ill-considered remarks when health secretary exacerbated his disputes with the doctors and ambulance service. There was also the television debate about an almighty row by inviting Oswald Mosley, the head of the British fascists in the 1930s, to speak. He rode out the storm but it delayed his rise to the politically important post of president of the Cambridge Union, the students' debating society. Similarly, Balen says Clarke's later battles with doctors and ambulance workers "set back his career and ultimately cost him a place in the leadership race

Such mishandling can be excused and overcome in a battle against vested interests. But will financial markets be so forgiving if they turn against the pound and this chancellor?

Peter Norman

**C**loser than Switzerland" says the advertisement for a large private bank in the newly independent state of Latvia, which nestles between Russia and the Baltic Sea. The slogan could apply to the entire country, as it tries to rejoin the capitalist west from which it was torn by Stalin in 1940. With a strong currency and hopes of becoming a financial centre, Latvia is emerging as an island of relative economic stability within the former Soviet Union.

However, Latvia's ambitions for a speedy reintegration with the west are threatened by a political problem which has festered for the past three years: whether non-Latvians, who make up almost half the population, should be given citizenship. On Tuesday, the Latvian parliament finally passed a law giving non-ethnic Latvians born in the country a chance to apply for naturalisation by 2000. But it imposes draconian citizenship quotas on non-Latvian residents who were not born in the country.

These quotas mean Latvia is unlikely to join the Council of Europe, the 35-nation forum for human rights and democracy regarded as a stepping-stone for integration into western Europe. This is because such organisations, as part of their membership requirements, insist countries should not leave residents stateless. More importantly, the Latvian parliament's decision means any longer-term ambition to join the European Union and Nato - which Latvia sees as its best guarantee of security and independence - has been pushed further into the distance.

Mr Hugh Hamilton, local representative of the Conference on Security and Co-operation in Europe, the 52-nation forum regulating borders and security, said yesterday: "International opinion in general will be expressing concern that this law really does not accord with the norms of the western community which Latvia has been seeking to associate itself with."

Mr Valdis Birkavs, Latvia's prime minister, recognised the new difficulties created by parliament's vote when he told deputies: "Let us cherish no illusions that we will wriggle out, that nothing bad will happen. These quotas can only complicate matters."

The ramifications are considerable. The curbs on citizenship will hinder economic progress because citizenship brings the right to own land as well as to vote. They are also

## Held up on the western line

Leyla Boulton says Latvia's tough citizenship rules are a blemish on its international image



hampering Latvia's attempts to mend relations with Russia and restore trade ties damaged by the collapse of the Soviet Union.

Had it been able to devise a more internationally palatable solution to the citizenship issue, Latvia would have been better placed to build on its economic strengths. Since recovering its pre-war independence in 1991, Latvia has run a near deficit-free budget. Its currency, the lat, is fully convertible and last year appreciated against the main western currencies. Under the monetarist stewardship of a fiercely independent central bank, inflation and recession have been milder in Latvia, and in next-door Estonia, than in their former Soviet neighbours.

Latvia's GDP contracted by 12 per cent last year but has returned to modest growth this year. An inflation rate of 33 per cent last year is forecast by economists to fall to about 20 per cent this year - low by the standards of the former Soviet Union. High real interest rates and lack of foreign exchange controls have attracted capital

fleeing instability elsewhere in the former Soviet Union. Mr Alexander Rannik, Russian ambassador to Latvia, described the country as "a Switzerland for second-class capital which is not ready for Switzerland but unsafe in Russia".

But the financial orthodoxy which has made Latvia a favourite of the International Monetary Fund contrasts sharply with its clumsy handling of its demographic migration. As a result of the migration of Russians, Ukrainians and Byelorussians to work at factories built under Soviet rule, ethnic Latvians today account for only 52 per cent of the population, compared with three-quarters before the country's annexation in 1940.

Fearing Latvians could be swamped by "Russian-speakers", parliament decided in the run-up to independence to restrict citizenship to pre-1940 citizens and their descendants. This arrangement effectively disenfranchised 700,000 people who had the vote when Latvia was part of the Soviet Union.

The legislation approved this

week will enable spouses of citizens, plus more than 200,000 Russian-speakers born in Latvia, to apply for citizenship by 2000. But Mr Hans-Peter Furrer, the Council of Europe's director for political affairs, said the quotas in the new law would mean only about 2,000 people born outside Latvia (out of a total of 300,000 in this category) would qualify for citizenship each year after 2000.

Latvia can argue that it faces a unique dilemma - few countries' demography have been so radically altered in a relatively short period. But while sympathetic to its circumstances, Mr Furrer and the CSCE's Mr Hamilton believe Latvia could have protected its national identity and security without quotas - via, for instance, a requirement that citizens can speak Latvian.

Mr Nils Muiznieks, a US-born academic, explained the reluctance to grant citizenship as a mixture of a desire by extreme nationalists to encourage Russian speakers to leave, and fears among more moderate politicians that giving them the vote could "slow" Latvia's

market reforms and create a "fifth column" of potentially disloyal citizens. Many Russian speakers work in Soviet-era factories now likely to close and are regarded by ethnic Latvians as inclining to the east rather than to the west.

The irony is that many Russians, who constituted the local elite in the Soviet era, have become akin to the Jews of the Tsarist empire. Excluded from government posts, they have thrived on business, which they now dominate. Local Russian-language radio in the capital Riga plays locally-produced pop songs with lyrics about the delights of going into "bizness". Mr Boris Tslavich, a Jewish writer who has taken up the cause of non-citizens, said a large segment of the population is being unnecessarily alienated. "If Russian-speakers turn out to be the 'fifth column' Latvians talk about, it will have been built by Latvian hands."

Perhaps more worrying is the reversal of progress in repairing relations with Russia which could ensue from parliament's decision this week. Last month the two countries signed an agreement on the withdrawal of the remaining Russian troops by August 31. In return, Latvia agreed to give residence permits to retired Russian officers who decide to stay. Russia made clear its displeasure at the reappearance of quotas in the draft citizenship law earlier this month when it postponed indefinitely a planned visit to Latvia by Mr Victor Chernomyrdin, Russian prime minister. In anticipation of the visit, a trading agreement between Russia and Latvia, halving import and export duties on trade between the two countries, came into force at the beginning of this month.

Latvia's eagerness to recover markets in the east is being spurred by fears that, in spite of its pro-western outlook, overpopulation and competition from more developed capitalist economies could see its national interests subjugated to those of foreign investors. The danger Latvia faces is of upsetting both east and west. On the one hand, the citizenship law may fuel the demands of Russian nationalists in Russia, thus creating greater regional instability. On the other hand, Latvia has harmed its chances of winning acceptance by the western organisations that could protect its independence - and bring economic benefits - whatever happens in Russia.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Labels of candidates confusing

From Dr Keith Cameron.

Sir, On May 12, immediately after the close of nominations, the Devon branch of the European Movement held a public meeting at which six of the eight candidates for the Devon and East Plymouth Euro-constituency were given equal opportunity to speak.

One candidate, named to us over the telephone from the returning office shortly after 4 pm as the Direct Democracy Candidate, arrived at our meeting some three hours later as the Liberal Democrat. As a result of concerns raised after the meeting we sent a fax on May 13 to the returning officer about the clear scope for confusion between the labels of two candidates, already both described in *Express* and *Echo* of May 13 as Liberal Democrat. We pointed out that this could have "a not inconceivable pernicious effect on the representation of this area in the European Parliament". Our request for clarification of the descriptions was not acted upon.

The election result fully justifies our concerns; the Liberal Democrat, unknown and with no campaigning literature, obtained some 10,000 votes by deceiving large numbers of understandably very upset electors. The Liberal Democrat was a mere 700 votes behind the Conservative. It should be noted that the misleadingly-described candidate was in a higher position on the ballot than the Liberal Democrat.

In the interests of fair and proper representation my committee considers it necessary for a new election to be held in this constituency.

Keith Cameron,  
chairman, Devon Branch,  
European Movement  
Exeter

### Lottery and fair competition

From Mr Paul Rowe.

Sir, You reported in your story, "EU seeks views on Cadbury link with Lottery" (June 15), on the European Commission's examination of the Camelot joint venture agreements. The Commission wishes to ensure that the agreements in no way contravene EU rules on free and fair competition. It seems likely that Camelot will have taken great care to formulate its agreements in such a way as to minimise the risk of their being overturned by the EU.

I wonder, however, whether as much consideration has been given to potentially serious competition issues by those who will be distributing the proceeds of the National Lottery. Such issues could arise if the distributing bodies grant funds to companies or other organisations which

compete in genuine markets. The lottery legislation may have excluded private individuals and companies from receiving grants from the National Lottery Memorial Fund but I am not aware that any such exclusion applies, for example, to Arts Council or Sports Council funds. Competition among theatres and among sports venues, to name just two examples, could thus be affected.

Companies which bid for grants and propose to co-finance the projects concerned will surely be seeking some competitive advantage as a result. An effective subsidy for a capital project provided to just one player in a market but not other (potential) competitors, might constitute a significant barrier to the competitors' entry or growth. Grants could directly or indirectly support

changes in pricing, investment or other competitive behaviour.

I believe that such effects could well be thought of by some non-recipients of grants as distortions of competition in their markets. The chances of this are increased by the National Lottery's high profile and the substantial funds likely to be distributed. Complaints to competition authorities seem distinctly possible.

My experience is that they consider the distribution of subsidies carefully. Some of the distributing bodies may need to think equally carefully about developing appropriate guidelines to deal with these issues if they are to avoid the authorities' investigations.

Paul Rowe,  
Coopers & Lybrand,  
1 Embankment Place,  
London WC2N 6NN

### Standard not necessarily to do with product quality

From Mr Alan W Bateman.

Sir, As a former business director for commodity chemicals in one of the world's largest chemical companies the attacks on BS 5750/ISO 9000 provide me with a belated sense of "I told you so" ("Quality under fire", June 21).

I regarded the so-called standards as one of the biggest con games ever perpetrated on the chemical industry, since they did not necessarily have anything to do with the quality of the final product or its fitness for use. If the BNS/ISO certification defines a process which is less than optimal, product quality can be affected.

For chemical products of the physical and chemical specifications agreed between the customer and the producer should be the prime criterion.

The manner by which the producer makes the chemical or acquires it in the event that his plant cannot produce for any reason should be irrelevant to the customer. The guarantee to the customer must be that the product supplied is "on spec".

The only winners in the BS/ISO game have been those that carried out the certification process which is unbelievably time-consuming and expensive. An American friend of mine (also in the chemical business) assured me that the initials "BS" had a meaning other than "British Standard" when the number 5750 was involved.

Alan W Bateman,  
chemical industry consultant,  
Oberkusterstrasse 7,  
CH-5134 Adliswil,  
Switzerland

### No nannying

From Mr Edward de Bono.

Sir, Many of your readers expect to find valuable and useful information in your pages. Some of them are not too happy to be patronised by an interviewer (Lucy Kellaway) who plunks her magnificent ego between them and a subject they might like to learn more about. ("Put on your thinking caps", June 17).

Since "parallel thinking" has now been taken up by many corporations which find it more constructive than traditional opinion of your interviewer is probably of less value to your readers than an opportunity to find out about the method. Your readers can make up their own minds without being named as to what to think.

Edward de Bono,  
Le Alton,  
Piccadilly,  
London W1V 9RR

### Fears about biotechnology are not based on ignorance

From Dr Alan Wreilton.

Sir, I feel I must take issue with David Richardson's assertion (Farmer's Viewpoint, June 21) that fears about the adequacy of biotechnology safeguards are "probably based on ignorance". While I would not dispute that genetically modified organisms offer great potential, it is important to

appreciate that, once released into the environment, such organisms will be outside of our immediate control and, potentially, will be subject to evolutionary and adaptive processes. One does not have to assume a worst-case scenario involving the transfer of genetic material between species, to foresee problems. For

example, it is obvious to anyone that oilseed rape is colonising set-aside land and marginal habitats, such as motorway verges.

A genetically modified, herbicide-resistant strain of this crop could prove difficult to eradicate, presenting an insidious competitive threat to the native flora and hence the

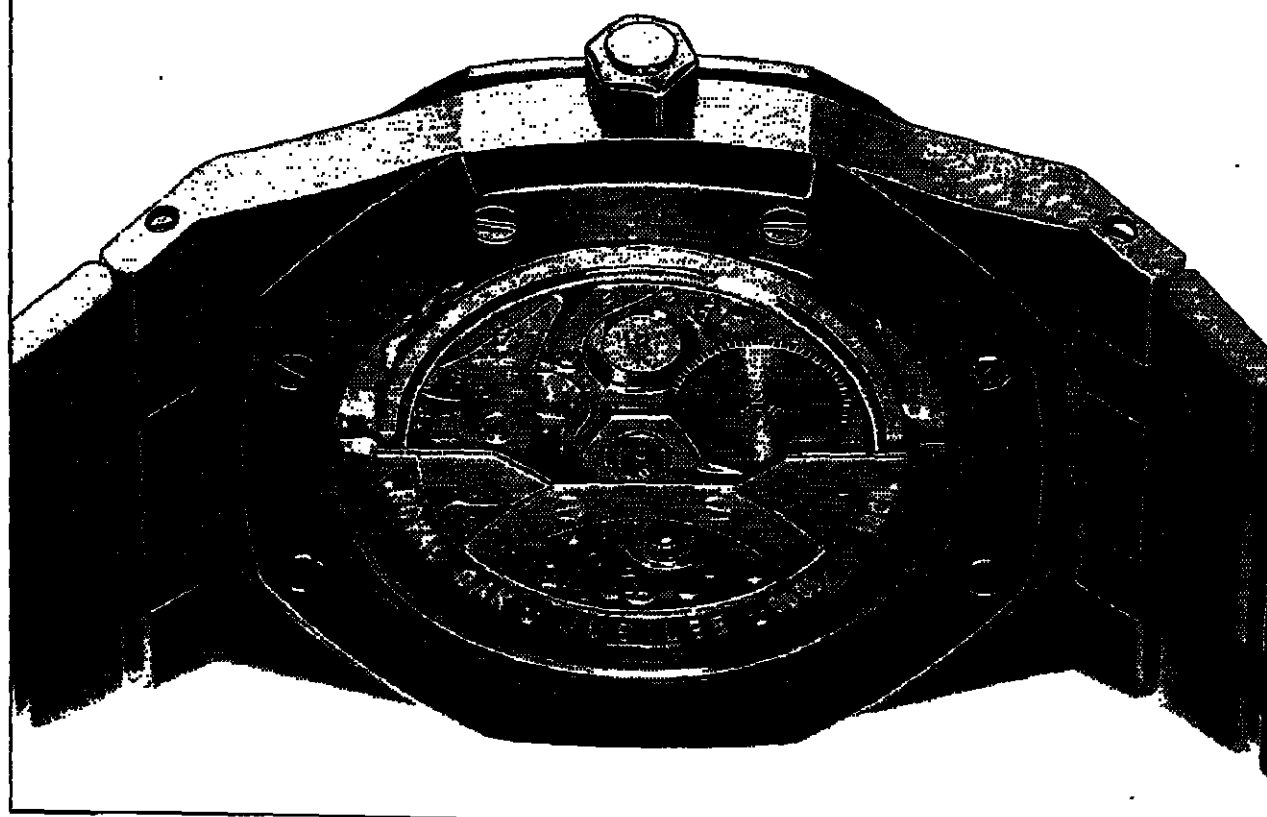
fauna. History is littered with the good intentions of scientists who failed to consider fully the implications of their actions. I do not regard myself as an ignorant Luddite because I have no desire to see the mistakes of the past repeated - I have a PhD in biology.

Alan Wreilton,  
Forest Gate, London E7

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## FINANCIAL TIMES

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Thursday June 23 1994

## Dumping of the dollar

Dollar weakness is an old story. Until 1971, the once all-conquering greenback was worth 360 yen. Until 1989, it was worth four D-Marks. How has the mighty fallen? The questions to be asked are why this latest bout of weakness has occurred, whether it is possible to do something effective about it and, finally, whether action should even be attempted.

The problem in explaining the dollar's weakness is not that there are too many explanations, but that there are too many. While movements in relative interest rates in 1994 should have been favourable to the dollar, factors can still be pointed at external balances, at fears of inflation, at the US fiscal deficit, at the Federal Reserve's somewhat modest monetary tightening since February and at the current caution of investors. It is tempting to draw the conclusion that the dollar has been weak because too few want to buy it.

Can one do better than that? Perhaps. If the dollar is to remain stable, the rest of the world must be a net buyer of claims on the US, at existing exchange rates, of some \$140bn in 1994, says the IMF in its latest World Economic Outlook. Similarly, Japan must be a net buyer of claims on the rest of the world, to the tune of \$133bn this year. Unless the US offers relatively attractive returns on assets (including on the dollar) and Japan relatively unattractive ones, these capital flows will occur only after exchange rates reach self-evidently under- or overvalued positions.

## Convinced investors

Until then, current 'account flows are likely to become overwhelming important. They are still more likely to determine the fate of the dollar once the US authorities have convinced investors that they do, foolishly, hope to eliminate the bulk of the Japanese current account surplus. The US current account deficit must then also fall, which suggests the dollar's real exchange rate will have to decline.

Is there anything the authorities can do about that decline? The answer is yes. The central bank in charge of the strengthening currency can always stabilise the exchange rate, by purchasing the weakening one, without limit. This was pretty well what the Japanese did, following the Louvre Accord in February 1987, not an experience they wish to repeat.

The real question is whether the authorities should, in fact, try to do something about the dollar's decline. A partial answer to this question is that the dollar's decline is probably not particularly harmful. But the policy changes suggested by the foreign exchange markets are, in any case, in the right direction. Developments in the US economy and bond markets would justify somewhat higher short-term rates of interest and a tighter fiscal position, the latter underlined by Mr Alan Greenspan yesterday.

Despite faint signs of recovery, there also is a case for a more expansionary monetary policy in Japan, something that unsterilised foreign exchange intervention would ensure. Why is the dollar weak? We are not certain. Can something be done about it? Yes, but nothing decisive will be. Should something be tried? Yes, because the required changes in policy would push the two main players in sensible directions. Does dollar weakness matter that much? Probably not. However unhappily, the world economy has survived 25 years of it. It can, no doubt, survive a few more.

Working relationship  
Fortunately, the four-year transition which culminated in President Nelson Mandela's inauguration last month has helped forge a working relationship between the ANC, Deputy President de Klerk's National Party, and the business community. It is significant that both the deputy to finance minister Mr Derek Keys, Mr Alec Erwin, and Mr Jay Naidoo, the minister responsible for the social upliftment programme, are preaching the virtues of fiscal discipline as enthusiastically as Mr Keys himself. This has allowed much of the important groundwork for development to take place. The foreign debt burden, dating back to the freeze on further lending imposed by commercial banks in 1985, has been eased. Similarly, the transitional team has negotiated an International Monetary Fund facility and made trade liberalisation proposals to the General Agreement on Tariffs and Trade.

Now what Mr Keys called the "golden triangle of government, business and the unions" has to deliver jobs and improved living standards. As he acknowledged, success in a challenging international environment requires liberalisation of South Africa's exchange controls, a significant obstacle to investor confidence, as soon as conditions are right. But first South Africa needs to build up its foreign reserves, which currently cover barely six weeks of imports. Above all, restored access to international financial markets should not be seen as a way of funding a larger budget deficit. If South Africa can realise the vision set out by Mr Keys in yesterday's budget, an open society, trading freely with other nations, investing liberally to increase productive capacity, and creating more jobs and an attractive domestic market - it will have broken the African mould.

## South Africa's balancing act

South Africa's government of national unity has passed its first test. Yesterday's budget is a brave attempt to reconcile two critical constituencies. The concerns of the business community, looking for evidence of fiscal discipline, were met with pledges to cut the budget deficit from 6.9 per cent to 6.6 per cent of GDP. It will be harder to satisfy a domestic constituency anticipating a liberation dividend. The provision of \$685m for the first year of the country's development plan may seem modest at first sight, but it will be hard to spend this amount efficiently in the time available. This cautious approach suggests that the new ANC-led government is determined not to repeat the mistakes that have proved so costly elsewhere in Africa. But the toughest tests are yet to come: controlling spending while keeping promises to provide a better life for the country's black majority. The budget will come under pressure from several sources including the costs of an expanding civil service, of a multi-tiered system of local, provincial and central government, and of integrating the armed forces. Winding up the old apartheid structures and replacing them with a new system will almost certainly prove more costly than anticipated, even if in the long run it will prove more efficient.

## Apartheid's legacy

Redressing the legacy of apartheid involves undoing one of the twentieth century's most radical experiments in social engineering, involving the forced removal from so-called "white areas" of over 3m people. Making restitution to the dispossessed, making available state-owned land to ease pressure in former "black areas", and redressing financial and other assistance from commercial farmers to peasant farmers without disrupting agriculture will be an awesome task for a government most of whose members have no previous administrative experience. Scarcely less demanding is the task of meeting a housing backlog of over 1.5m units while keeping up with annual extra demand of some 200,000 homes.

The new government must also resolve unfinished constitutional business: determining the rela-

Leaving aside politics and the bond market, the UK recovery is doing better than might have been expected. Output is rising at trend rates or slightly above; that is sufficiently fast to make inroads into unemployment and unused capacity, but not so fast as to stoke up inflation. Indeed, the April increase in earnings growth has, for the moment at least, reversed itself. The official index of underlying retail price inflation is 2.5 per cent, lower than predicted in any of the Bank of England inflation Reports. The Bank's own index, stripped of indirect tax increases, is even lower, at around 2 per cent or less.

Moreover inflation worries should be reassured by recent evidence that the pace of home demand is moderating. Retail spending, although well up on a year ago, is increasing less quickly. Monetary conditions have tightened themselves owing to the rise in bond yields, and an increase in the cost of fixed interest mortgages has taken the edge off the housing market. Thus, as the world economy recovers, there should be room for exports to take over some of the momentum from home spending.

What, then, are the financial markets worrying about? The political weakness of the British government is not a good explanation. There have been plenty of bull markets under Labour governments and bear markets under Conservative ones. Leaders are, if anything, hypersensitive to international and financial market sentiments. Have financial analysts already forgotten

the drawn-out offensive in the City before the last election to persuade the City of Labour's financial responsibility? The real dangers of a Labour government are from the harm it might inflict on its natural supporters through devices like minimum wages.

Another false worry is that the present government will refuse to tighten monetary policy when the Bank of England advises it to do so. The chancellor, Kenneth Clarke, is philosophically in favour of central bank independence, but does not think the time right for a full-frontal move. Meanwhile, the publication of the minutes of his monthly meetings with the governor has put the latter in the driving seat. If the Bank of England is really intent on raising interest rates - which it is not at present - the most that the chancellor is able to do, as he well recognises, is to interpose a minor delay. Moreover, a Blair-Brown Labour government would not reverse the moves made so far to

**The chancellor is looking at ideas for selective top-up to pay of those accepting low-wage jobs**

give the Bank more scope. Indeed Labour's mood at the moment is to settle for a transitional set of arrangements quite similar to the government's own.

What then is worrying markets? The source of the trouble is clearly the US. Even here, there may not be anything all that fundamental. We may simply have seen the bursting of a moderate speculative bubble. The Dow Jones Industrial Average is still much higher than in most of 1992 and 1993. The same applies to the FT-SE 100 index in the UK. The German Dax index has seen nothing more than a hesitation in a two-year upward trend.

Similar remarks apply to bonds. In the US and the UK, bond yields have more than reversed their 1993 fall, but are still lower than two years ago. The rise in German yields has been less, but sufficient to put a brake on the succession of short-term interest rate cuts. One way of putting what has happened is

that, a year ago, inflation was widely held to be dead and deflation declared to be the new problem. Today's perception is of a normal upward phase in the business cycle, bringing with it the familiar need for vigilance against any inflationary take-off.

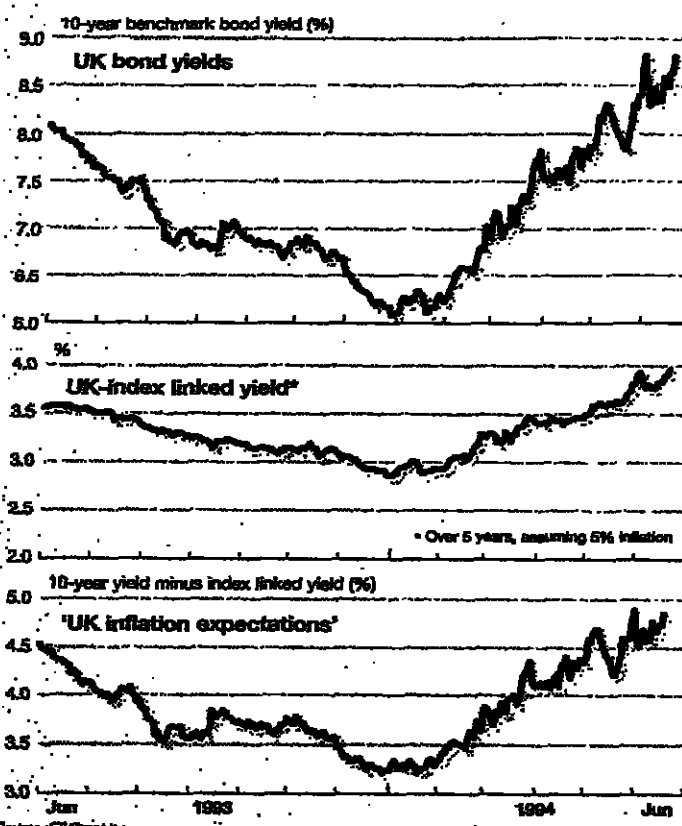
The most striking feature of world financial markets is the weakness of the dollar against the yen. But this is not yet a generalised dollar weakness. The US currency is a good deal higher, for instance, against the D-Mark than it was in the closing months of the Bush administration, when it touched DM1.38. Sterling has weakened less than the dollar and it is still well above the low levels it reached after the 1992 ERM exit. But having said all this, the weakness of bond prices will indeed become a severe warning signal if it goes much further. The rise of nearly 3 percentage points in UK bond yields since last winter can be decomposed into two elements.

## ECONOMIC VIEWPOINT

## Steady as she goes but watch bonds

By Samuel Brittan

## The switch in bonds



There has been a rise of over 1 point in the return on index-linked securities, which now yield around 4 per cent. This is an approximation to the real rate of interest not only in the UK, but in the world - for real rates tend to equalise in a worldwide capital market.

This real component of the rise in rates could be a sign that the world capital shortage, which was prematurely diagnosed after the fall of the Berlin wall, has at last really arrived. In the words of David Hale of Kemper Financial Services, "the potential exists for the old industrial countries to experience a cyclical economic recovery coincident with rapid economic growth in countries making the transition to

market-based economic systems. This is likely to put upward pressure on real interest rates, because it will generate investment activity and credit demand from countries which have not been players since the first world war." In addition, there will be the need to finance budget deficits in most western countries.

On top of these structural forces, there is an apparent rise of more than 1 percentage point in the UK 'inflation premium', derived by subtracting the yield on indexed gilts from that on normal gilts. The one worldwide force suggesting the possible return of inflation has been a 25 per cent jump this year in commodity prices. In fact, a

sharp rise here in the course of a world recovery is quite normal. An occasional bump of this kind is an illustration of the point by former UK chancellor Lord Lawson that we cannot expect either output or prices to move in a straight line. However, a continued commodity price increase of recent dimensions could not be so readily explained away and would be a sign of worldwide pressures on capacity.

I can still hear critics saying that the true constraint on UK recovery is not inflation but the balance of payments. Let us cut out the scholastic argument about how much this matters and conduct the argument in terms of capacity instead. For what could make it necessary to slow down the recovery well before a reasonable level of employment had been reached, would be a shortage of capacity. Here the former Nedo economists, whose book *Britain's Economic Performance* was reviewed by Edward Balls in the FT last Thursday, have a point. With the cost indices showing Britain being highly competitive against the rest of the world, further devaluation would just be inflationary. Despite the peculiar left-right coalition which regards such a prospect with indifference, if not joy, continuing depreciation of sterling is not an option for governments even half serious about a 1 to 4 per cent inflation rate. Admittedly, in the Treasury model sterling is not a good predictor of inflation for up to two years ahead. But this is just a question of forecasting techniques.

There can be little doubt that, if sterling continued to drop year after year against the world's main currencies, the UK inflation rate would be correspondingly higher. Britain has already had, when it left the ERM, the one-off devaluation which might be benign.

Where, however, the ex-Nedo economists are obstinately wrong is in failing to see that the capacity shortage is at bottom a labour market problem. For in the end, businesses will install the amount of capacity that they regard as profitable. In the long run extra workers are taken on, and the capacity to employ them installed, if the gains from so doing exceed the extra costs involved. If labour markets were more flexible, it would pay to add capacity and employ more people. (Readers who disagree should write "to the editor", not to me.)

It is at least a good sign that the chancellor is using the present respite from monetary controversy to investigate ideas for improving the workings of the labour markets in a humane way, so that it becomes possible to create low-paid jobs for the less skilled, while topping up their pay by other means.

## Europe's pensions quandary



PERSONAL VIEW

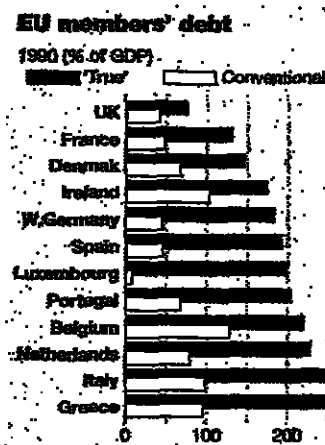
The question of how pensions should be financed and who should pay them remains at the top of the policy agenda across the world. In the UK, today's white paper in response to the Goode report will propose new solvency standards and regulatory reforms, while in Italy the government is faced with a budget "hole" of perhaps one-fifth of the planned 1994 deficit as a result of a court decision this month on state pensions. There is a widespread feeling that something has to change here - as demonstrated by last week's abandonment of the troubled European Union pensions directive - no agreement as to what.

But the problem cannot be swept under the carpet. The adverse demographic trends at the heart of the pensions quandary are a source of strain for public sector budgets already swollen by unemployment due to an explosion of low-cost competition. The extent of the strain cannot be gauged from published

public sector statistics, which are purely backward-looking, with no inclusion of unfunded pension liabilities.

Researchers at ABP, the Dutch civil service pension fund, have quantified the present value of unfunded pension liabilities in Europe. If the present value of tax receipts from public and private pensions is deducted from this sum, and the conventionally measured debt burden is added, the result gives a measure of "true" debt (see chart). While this does not represent a complete set of adjustments to gross public debt data - which would include assets to be sold off, as well as future liabilities - there is merit in singling out pensions. First, pensions are among the most important categories of public expenditure. Second, to the extent that they are unfunded, they are most vulnerable to demographic trends.

The "true" debt/gross domestic product ratios are more than double conventional ratios almost throughout the EU. The UK - with both the lowest public pension in the EU and one of the best developed private-



funded sectors - stands out as having the smallest unfunded liabilities in relation to GDP, and that ratio will have fallen after the 1993 announcement of a phased rise in the pension age for women.

Financing problems are not confined to pensions promised by the public sector. In Germany, private schemes are usually of the defined benefit type and more than 60 per

cent of private pension obligations are held within company balance sheets. But under the pressure of redundancies, some companies have begun to create separate pension funds, partly because the employee contributions which are proving increasingly necessary to practice by law be made into a hypothecated fund. Some means of encouraging savings needs to be found. An alternative solution to underfunding is to reduce the real value of pensions, but there are clear political limits to this; in the Netherlands the Pensioners' party won six seats in May's elections. In the UK the state savings related pension scheme became less generous in 1988, and since 1981 the basic pension has been linked to prices rather than wages. Greater availability of appropriately supervised private sector pension funds, free to invest as their managers see fit, is the only realistic way forward.

Make no mistake, governments will progressively renege on their pension payments. The only way to head off political consequences is to encourage saving, particularly via private pensions. In continental

Europe, where cross-border sales and investments are commonly constrained, Sir Leon Brittan gave the lead in 1991 with the draft Pensions Directive. But although all European leaders support free capital movements in principle, in practice the ERM and the Maxwell crises, coupled with lingering resentment of the UK's tactics during the Maastricht negotiations, destroyed the political support for the directive, and it has been abandoned.

Europe's pensions quandary is not a suitable case for "muddling through". A directive which genuinely liberates capital would radically improve the allocation of savings, raising growth and generating jobs. In stark contrast to last year's Commission white paper, free cross-border pensions in Europe could help finance investment without adding to high government debts - both revealed and hidden.

Jonathan Hoffman

The author is a director of economics at CS First Boston, London

## OBSERVER



'I'm a professional slave to my ego'

Until the state department decrees Lebanon safe, therefore, daily rummaging of the oldest US institution in the Middle East remains in the hands of its now non-American staff.

## Not tongue-tied

Anyone wishing for an instant assessment of the state of the South African economy need look no further than the attire of finance minister Derek Keys. Yesterday he was sporting what he calls his "good news" tie, a truly appalling confection of broad stripes in yellow, purple, maroon

and blue. This garish combination heralded an upbeat introduction to yesterday's budget: an economic recovery boosted by a higher gold price, solid export earnings, improved access to foreign markets, favourable agricultural conditions, improving local and international business and consumer confidence "with each day that passes". If on his next public appearance Keys sports an even more spectacular choice of neckwear, brace yourselves: he'll most likely be announcing the abolition of the financial rand.

## Right pair

The menu in the Columbia Restaurant of the QE2 luxury liner this week offered passengers a chance to taste some traditional Old English dishes: Spaghetti Bolognaise followed by *Coupe Belle-Helene*. No doubt they should be washed down with some of that good old Somerset drink *Dom Perry* gin.

## Nice one, George

Always thought that George Mathewson, the restless chief executive of the Royal Bank of Scotland, was a bit of a rum cove. On the day 31 celebrated its stock market launch, Mathewson's bank dumped (sorry sold) its entire £115m stake in the venture capital

company. Given that Mathewson spent nine years learning his trade at the old IFC, the forerunner of 3i, it doesn't sound much like a vote of confidence in his old employer. "I hope nobody thinks that I am saying 3i is a bad company. It is a very good one," says Mathewson who blames less favourable accountancy rules for his change of heart.

Quite so. But it probably would not have happened if the Royal Bank was still run by old-fashioned clearing bankers.

## Bristol fashion

George Mathewson is not the only ex-3i veteran at the Royal Bank who clearing bankers love to hate.

Derek Sach, recruited by Mathewson to run the bank's intensive care ward after 20 years at 3i, has even dared challenge the usefulness of the floating charge, an ancient banking method whereby banks can get their money back even if no one else can. He told the FT earlier this week that it should be abolished. As one pained clearing banker noted yesterday this would mean that students of Institute of Bankers exams would no longer be able to answer the stock question: "How do you secure a ship mortgage?" with the hoary old answer "with a floating charge and a sinking fund."



## UK opt-out keeps it exempt from directive EU states agree law to set up works councils

By David Gardner in Luxembourg

All European Union member states, except the UK, yesterday agreed on a law to set up elected works councils in up to 1,500 large trans-European companies. The councils are intended to ensure that workers' representatives in companies employing more than 1,000 people - or more than 150 in at least two member states - are consulted and informed on cross-border business decisions that affect them.

A jubilant Mr. Pöhl, ECU social policy commissioner, acclaimed yesterday's decision as "a historic breakthrough" for workers' rights in the border-free single market. "This flexible legislation is good for business and will improve competitiveness through better industrial relations," Mr. Pöhl said.

The deal follows 24 years of wrangling. The UK is exempt from the directive through its opt-out from the Maastricht social chapter, under which yesterday's legislation was passed. However, just under 100 British companies

operating on mainland Europe will be affected.

A recent German study suggests that 450 German companies, 250 US corporations operating in Europe, and 220 French companies will be the most affected. Nearly 300 UK companies would have been in the net had it covered British territory.

Attempts to include UK-based employees of British multinational firms were rejected by EU labour and social affairs ministers meeting in Luxembourg yesterday.

Mr. David Hunt, UK employment secretary, said he was "very pleased that the UK will not be forced to accept trade union-dominated works councils" which "will impose unnecessary costs and bureaucracy on companies".

The directive replaces the original Brussels plan for a uniform structure of compulsory consultation with provision for individual voluntary agreements at company level.

The process is triggered when "at least 100 employees or their representatives in at least two member states" ask for information and consultation procedures.

It takes full effect three years, then a set of minimum standards contained in an annex to the directive will apply. If management refuses talks, the annex will be imposed after six months.

Assuming the measure is rubber-stamped by ministers in October after a second reading by the European parliament, and allowing two years for transposing the directive into national law, the councils should be up and running by the end of 1997.

Unions, the Euro-employers' lobby, said on the eve of the decision that it "violated the very principle of consultation that it seeks to endorse". British employers also denounced the decision. Mr. Peter Morgan, director-general of the Institute of Directors, said works councils would damage European competitiveness.

The European Trade Union Confederation said workers had waited a long time for this decision which gave "a new push to the EU social policy". This was the first EU-law passed under the Maastricht social chapter.

## Guinness cashes in on Irish World Cup triumph

By Paul Taylor in London  
and Tim Cooney in Dublin

Ireland's success in the World Cup is creating a windfall for Guinness, the London-based brewer, which has seen stout sales rocket on both sides of the Atlantic.

Some pub landlords in Britain have had to order "emergency supplies" of Guinness after Ireland's football triumph over Italy sent sales soaring up to five times normal levels.

In Britain, where Guinness generally sells around 1m pints a day, pubs and Irish clubs, particularly those in areas such as north-west London and Merseyside, which have large Irish populations, report strong sales. "The Irish have a knack for turning a sports event into a party," said Guinness.

But English, Scottish and Welsh football fans, heretofore their own issues to support in the World Cup, are jumping on the Irish bandwagon and ordering pints of Guinness - promoted on television by Jack Charlton, the Irish manager.

Guinness, which is sponsoring the Irish team, readily admits that much of the evidence for the sales surge in Britain is anecdotal, since it has yet to compile actual sales figures.

Nevertheless, one pub landlord in Peterborough, Cambridgeshire, reported that his customers drank more than 1,000 pints of Guinness on Saturday as they watched Ireland's 1-0 victory over Italy - more than quadruple normal sales.

In the Irish Republic, where 420m pints of stout are downed every year and Guinness is estimated to have 90 per cent of the market, the company says sales have gone up by 15 per cent since the World Cup started.

This was despite a barman's strike in Dublin last Saturday, timed to coincide with Ireland's opening match against Italy, and which closed half of the pubs in the capital. Happily, the dispute has now been resolved.

In the US, Guinness sales were already growing strongly. Irish bars in New York and in Orlando, Florida, where the team is now staying, are doing brisk business with the estimated 18,000 Irish supporters.

Sales in Orlando during June are running at more than double the 1993 level and at Mulvany's Irish Pub last Saturday, 33 barrels of Guinness were drunk compared with between five and eight on a normal Saturday.

In New York where Ireland's first match was played, the Guinness regional sales representative believes 50,000 pints of Guinness will be sold this month - up between 70 and 80 per cent on the same period last year. "It's like a month-long St Patrick's Day," she said.

Norway braced for Italian backlash, Page 8

## THE LEX COLUMN

### Investors in 3i

Stormy financial markets have forced 3i to trim its sails a touch but not prevented its flotation. The issue has been priced at a 13.5 per cent discount to net asset value, which is somewhat higher than the venture capital group's existing bank shareholders were originally looking for. Barings, 3i's merchant bank, has also thought it wise to choose a price which will mean that institutional shareholders will on average receive less than half the shares they apply for. That should ensure a healthy aftermarket provided equity prices do not take another dive in coming weeks.

But it would be wrong to conclude that the pricing offers investors the prospect of quick profits. Though the bulk of 3i's portfolio is unquoted, it is valued by reference to market price/earnings ratios. Similarly, the drying up of new issues means it will take longer for 3i to realise the value of its assets. The 27p issue price merely reflects these factors. It is not particularly generous.

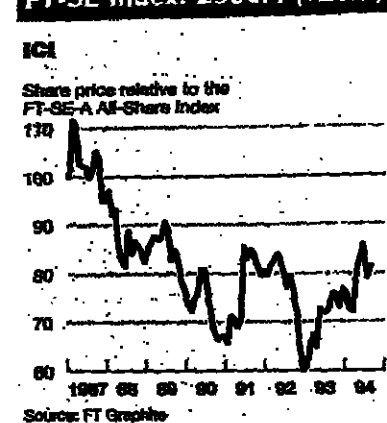
3i's main attraction is as a long-term investment. The company has outperformed average venture capital and smaller company investment trusts over the past decade. The source of this success is a branch network that enables 3i to invest in a much broader range of small companies than rival investment trusts are able to tap. Though there are costs in maintaining 3i's network, they have been cut in recent years. Because the competition in supplying finance to this sector is not severe, the prospective returns are higher.

#### ICI

The stock market's reaction to the appointment of an outsider as ICI's chief executive was muted compared to the celebration which greeted Mr. Martin Taylor's arrival at Barclays last summer. But Mr. Charles Miller Smith, who is moving to ICI from Unilever and was rumoured to be in the running for the Barclays job, should not feel slighted. The process of cultural change is already well established at ICI following last year's takeover of Zeneca. The main comfort in the appointment is that there is less danger of ICI sliding back into complacency now that profits are starting to improve.

Mr. Miller Smith may also be able to add value to ICI's investment decisions, which will be just as important for the company's long-term success. The chemical group's record on this

FT-SE Index: 2960.4 (+20.2)



score has been patchy. With its balance sheet restored to health thanks to the demerger, ICI has money to spend. But without the cash flow from the bioscience side, it cannot afford expensive mistakes.

While Mr. Miller Smith will not bring specialist knowledge to investment decisions, ICI is not short on chemicals industry experience. The chairman-designate and most other executive directors have risen through the ranks. Neither has specialist knowledge always brought the right result in the past. It may be more important that Mr. Miller Smith brings a dispassionate view, unencumbered by the past.

#### BAT Industries

It is not only pharmaceutical companies that catch colds when the US Food and Drug Administration sneezes. BAT's shares, too, have spluttered after the FDA attacked high-nicotine tobacco. Whatever the rights and wrongs of the latest row, the trend towards tighter regulation is unmistakable. BAT describes the FDA as an "agency with an agenda" aiming "to acquire jurisdiction over tobacco so that it can regulate it out of existence". That makes its \$1m acquisition of American Tobacco appear all the more heroic - or foolhardy.

BAT's shares have underperformed the market by 8 per cent since it moved to increase its exposure to US tobacco, although other unsettling factors have been at work. BAT has been hit by the dollar's weakness and it has only recently become apparent how badly Farmers was knocked by the Californian earthquake. Yet if BAT's

tobacco worries are confined to the US, its rating looks decidedly mean. Its tobacco interests are valued at an earnings multiple of around five when insurance is given a market rating. That may only reinforce the logic of buying off tobacco, even though Philip Morris has just baulked at the idea. After all, cigarette sales in the developing world should more than offset shrinking US demand.

#### Small companies

A pan-European market for smaller company shares of the type being discussed by Nasdaq, the US market, is an attractive idea. Institutions tend to be interested in the minnows only at the top of the investment cycle, so retail investors are required to underpin liquidity. Yet no single European country has a deep enough pool of retail money to allow the lower echelons of national markets to flourish. Harnessing interest across Europe might provide enough liquidity to replicate the success of Nasdaq in the US.

But in practice it is not clear that European investors have the same enthusiasm for equities as their US peers. And though the technology to run such a market is available, persuading national exchanges to back the venture will be hard. The London Stock Exchange for one is determined to go it alone. Even if a number of existing markets could be convinced in principle, ticklish problems of accounting harmonisation and regulation would have to be overcome. None of this amounts to an argument against trying to establish such a market. But there are powerful reasons to doubt whether it is an idea whose time has come.

#### Telegraph

A recent study by management consultants McKinsey argued that the only reliable way to win price wars was to avoid them. On that reckoning, the Daily Telegraph can only lose heavily by cutting its cover price. The Telegraph accepts it could lose \$40m in annual circulation revenue, although that will be partly offset by increased advertising and lower costs. The more worrying thought is that the Telegraph has ceded control of its destiny to its chief competitor. The Telegraph's move only makes sense if The Times now stops hostilities. Sadly, Mr. Rupert Murdoch is not renowned for such generosity.

## Russia warns on pace of Nato expansion into east Europe

By Bruce Clark, Defence  
Correspondent, in Brussels

Mr. Andrei Kozyrev, the Russian foreign minister, yesterday urged Nato not to risk provoking public opinion in his country by rushing to welcome east European countries as members of the alliance.

The appeal was made during a visit to Brussels for a Nato meeting hailed as a landmark in Russia's links with the west. Representatives of Nato's 16 member states were gathered to honour Russia as the 21st, and most important, member of Partnership for Peace, the military co-operation programme.

The partnership is intended to broaden military co-operation in Europe and the former Soviet republics, setting up programmes for joint peacekeeping exercises and grooming countries for eventual Nato membership.

Mr. Kozyrev told Nato that a large section of the Russian public needed convincing that the alliance was not intent on a "triumphant march eastwards".

The Russian minister said a "major psychological adjustment" would be necessary before his fellow citizens could accept the idea of countries like Poland, Hungary and the Czech Republic joining the alliance.

In welcoming the Russian participation, Mr. Warren Christopher, US secretary of state, said that "by widening the reach of the great postwar security and economic institutions, we can help ensure that war, poverty and oppression never again engulf this continent".

Mr. Kozyrev stepped back from previous demands that Nato be subsumed by the Conference on Security and Co-operation in Europe, a loose club of 53 nations whose current brief is more diplomatic than military, and said time would tell which was the most important institution.

"Let us not make any of them a fetish... experience will show the correct combination and determine the real value of each of them," Mr. Kozyrev said. As well as signing up to the

partnership, Mr. Kozyrev and his hosts approved a separate document that will usher in a broader relationship between Russia and Nato, including a dialogue on European security issues.

But allowing Russia to negotiate this side agreement in advance of joining the partnership has dismayed central and east European states, who were told they must adhere to PFP first and then refine their links with Nato.

Nato officials, however, said they were satisfied that the document's final text did not give Moscow any automatic right to sit in on their private discussions. Diplomats said that in four days of haggling, Russia showed goodwill by agreeing to work from a Western draft but it won important concessions.

One was the exclusion of a phrase that would pledge Russia and Nato not to interfere in each other's decision-making process. Another was the inclusion of a reference to Russia's importance as a nuclear power.

## Clinton defiant over state of US economy

Continued from Page 1

more stable dollar and from Mr. Greenspan's testimony.

German bonds rose almost 2 points, helping the rest of the European bond markets to recover, but volume was thin.

In Frankfurt, the Dax stock

market index rose 11.15 points in normal trading hours to 1944.2. After hours, it added another 10 to 2004.93. In Paris, the CAC index jumped 26.26 points to 1917.04. In London, markets were also given a boost by the publication of the minutes of the May meeting between Mr. Kenneth

Clarke, chancellor of the exchequer, and Mr. Eddie George, governor of the Bank of England.

The minutes indicated no immediate need to increase UK interest rates. The FT-SE 100 index rose 20.3 points to 2960.4, while the September long gilt future gained nearly two points.

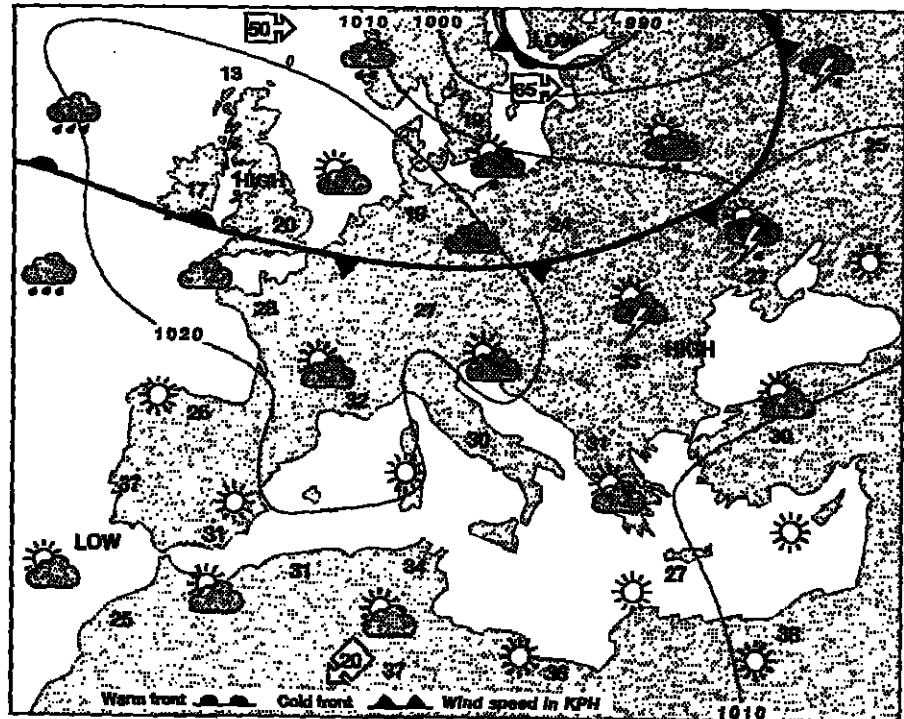
## FT WEATHER GUIDE

### Europe today

A depression over Finland will produce a lot of rain over northern Scandinavia. Showers and cool breezes will reach the western coast of Sweden and winds will be gale or strong gale force over the Baltic. Meanwhile, high pressure will make western Europe more settled. Northern France, Germany and the Benelux will be dry with sunny spells. Southern Europe and northern Africa will be sunny and warm. The Balkans and the Ukraine will be warm with thunder showers developing this afternoon. Warmer air will move slowly across southern England and Ireland, resulting in increasing cloud and occasional drizzle in Ireland.

### Five-day forecast

A vigorous depression over Finland will weaken as it moves into Russia. As a result, more settled conditions will develop over northern Europe. Warm air over Spain will be drawn further into France and later towards the Benelux. However, a depression will develop over France causing thunder showers to form on Saturday. These will reach the Benelux and western Germany on Sunday and it will soon become cooler.



Situation at 12 GMT. Temperatures minimum for day. Forecasts by Meteo Consult of the Netherlands

### TODAY'S TEMPERATURES

Abu Dhabi	sun	40	Beijing	fair	33	Casablanca	showers	28	Faro	fair	30	Machida	sun	37	Panagiotis	cloudy	37
Accra	showers	28	Belfast	cloudy	17	Cardiff	drizzle	19	Frankfurt	fair	28	Madrid	sun	30	Rapla	cloudy	10
Algiers	fair	31	Berlin	cloudy	21	Chicago	fair	30	Geneva	fair	25	Manila	sun	30	Rio	fair	25
Amsterdam	fair	16	Bombay	cloudy	18	Dakar	fair	31	Glasgow	cloudy	16	Manila	cloudy	24	S. Francisco	sun	21
Athens	sun	32	Buenos Aires	cloudy	23	Dallas	cloudy	32	Hamburg	rain	18	Medan	cloudy	22	Singapore	cloudy	01
B. Aires	sun	32	Buenos Aires	cloudy	23	Deli	fair	42	Hong Kong	rain	28	Miami	thund	33	Stockholm	cloudy	18
Bangkok	cloudy	30	C-hagan	cloudy	18	Dubai	sun	44	Honolulu	fair	28	Moscow	showers	20	Sydney	cloudy	20
Barcelona	sun	27	Cape Town	showers	16	Dubrovnik	fair	19	Istanbul	fair	26	Murich	fair	28	Taipei	fair	28
						Edinburgh	fair	19	Jakarta	cloudy	31	Nairobi	fair	30	Toronto	sun	24
									Jersey	fair	34	Nassau	showers	30	Vancouver	showers	21
									Kuwait	sun	44	Nice	sun	31	Verona	fair	31
									L. Angeles	fair	22	New York	sun	27	Warsaw	fair	25
									Los Angeles	cloudy	19	Niamey	sun	35	Washington	sun	32
									Lima	cloudy	19	Nizhny	sun	30	Wellington	cloudy	10
									London	cloudy	22	Osaka	cloudy	20	Winnipeg	fair	28
									Luxembourg	cloudy	20	Paris	cloudy	21	Zurich	fair	28
									Lyon	cloudy	20	Perth	cloudy	21			
									Madrid	fair	28	Prague	cloudy	27			

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# FINANCIAL TIMES COMPANIES & MARKETS

THE FINANCIAL TIMES LIMITED 1994

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## IN BRIEF

### All change on top at Tetra Laval

Packaging group Tetra Laval has announced a shake-up of senior management, following the sudden departure of Mr Uno Kjellberg as chief executive of the group's biggest division, Tetra Pak. Page 20

### Handbags to be rationed

Louis Vuitton is rationing customers to one or two purchases at a time because of a surge in demand for its products. Page 20

### Royal Bank of Scotland sells 31 stake

Royal Bank of Scotland has sold its stake in 31, which is priced at 272p per share for its flotation. Page 20; Observer, Page 17; Lex, Page 18; Details, Page 26

### Deal boosts Japan's multimedia hopes

A co-operation agreement between Japan's NTT and the US's Microsoft to develop an interactive multimedia system could further Japan's ambitions in this area. Page 21

### Bridge battle enters new phase

Parker & Parsley, suitor for Bridge Oil, has begun legal proceedings against the rival bidder Gantry alleging breaches of the US Securities Exchange Act. Page 22

### BT's 48% rise beats expectations

BT's 48% rise in share price has beaten expectations in annual pre-tax profits. Page 24

### First Leisure warns on consumer spending

Profits ahead 15 per cent did not prevent First Leisure from warning there has been no substantial increase in consumer spending. Page 24

### Carpetright moves ahead

Twenty-nine new stores helped Carpetright boost profits by 79 per cent. Page 26

### Restructuring charges hit Wagon

Wagon Industrial posted better-than-expected profits, though still down on the previous year because of restructuring charges. Page 26

### Lunns reduce the trade deficit

A new strain of lupin which can be used for animal feed could soon take over British farmland and reduce the trade deficit. Page 28

### Investors shy away from China

Investors have been fighting shy of China, with the Chinese equity market falling 37 per cent in dollar terms this year. Back Page

### Correction

The picture on this page yesterday was of Mr John Simons, finance director of Hazlewood Foods. The caption wrongly identified him as Mr Peter Barr, chairman.

**Companies in this issue**

Si	26, 20, 18	Hardys & Hansons	26
AT&T	1	ICI	19, 18
Accor	21	King & Shaxson	26
Aer Lingus	26	LPA Inds	26
Air France	21	LWT	12
Allen	24	Lang (John)	26
Amber Industrial	26	Leigh Interests	26
BAT	18	Lotus Development	26
BOC	26	Lucas Inds	26
BT	24	MEPC	26
Berkeley	12	Medibanca	21
Bombardier	21	Meridian	26
Bridge Oil	22	Metallgesellschaft	19
British Land	22	Microsoft	21
Burns Philp	22	NTT	21
Butte Mining	21	Nasdaq	19
Capita	26	Old Mutual S Africa	26
Capital Inds	26	Parker & Parsley	22
Carpetright	26	Peugeot	20
Dartmouth Inv Trust	26	Portugal Telecom	24
EFT	24	Raid	24
ERF	24	Royal Bank Scotland	26
Emp	24	Second Core Trust	26
Eurotunnel	21, 24	Shanks & McEwan	24
Exxon	21	Sime Holdings	24
FCB Currency Mgmt	26	Standard Life	24
Finchley Ave Estates	26	Tesco	24
First Leisure	24	Trans World Comm	24
Fort	21	Wagon Industrial	26
Foster	19	West Trust	26
General Electric	1	Wheelock	19
Guthrie	18	Zambia Copper	22

### Market Statistics

Annual reports service	30-31	Foreign exchange	26
Benchmark Govt bonds	23	Gifts prices	36
Bond futures and options	23	Life equity options	Back Page
Commodity prices	22	London share services	30-31
Commodities prices	22	London trad options	Back Page
Dividends announced, UK	26	Managed funds service	32-36
S&P 500 index	23	Money markets	36
European prices	23	New Int'l bond issues	23
Fixed interest indices	23	Recent issues, UK	23
FT-A World Index	Back Page	Short-term int rates	23
FT-Bold Index	Back Page	US interest rates	23
FT-Govt bond index	23	World Stock Markets	37
FT-SE Asian Index	29		

### Chief price changes yesterday

FTSE 100	303.2	Change	+ 8.7
FTSE 250	225.6	Change	+ 6.5
FTSE 1000	542	Change	+ 10
FTSE 1000	875	Change	+ 19
FTSE 1000	308	Change	+ 15
FTSE 1000	370.5	Change	+ 5.5
FTSE 1000	1029	Change	+ 16
FTSE 1000	323	Change	+ 1
FTSE 1000	224	Change	+ 1
FTSE 1000	731	Change	+ 16
FTSE 1000	218	Change	+ 29
FTSE 1000	177	Change	+ 7
FTSE 1000	730	Change	+ 17.5
FTSE 1000	267	Change	+ 1
FTSE 1000	828	Change	+ 19
FTSE 1000	208	Change	+ 9
FTSE 1000	885	Change	+ 12.5

New York prices at 12.30pm.

FTSE 100	303.2	Change	+ 8.7
FTSE 250	225.6	Change	+ 6.5
FTSE 1000	542	Change	+ 10
FTSE 1000	875	Change	+ 19
FTSE 1000	308	Change	+ 15
FTSE 1000	370.5	Change	+ 5.5
FTSE 1000	1029	Change	+ 16
FTSE 1000	323	Change	+ 1
FTSE 1000	224	Change	+ 1
FTSE 1000	731	Change	+ 16
FTSE 1000	218	Change	+ 29
FTSE 1000	177	Change	+ 7
FTSE 1000	730	Change	+ 17.5
FTSE 1000	267	Change	+ 1
FTSE 1000	828	Change	+ 19
FTSE 1000	208	Change	+ 9
FTSE 1000	885	Change	+ 12.5

## Metallgesellschaft to sell HQ

By David Waller in Frankfurt

Metallgesellschaft, the heavily indebted German metals, mining and industrial group, has entered negotiations to sell its headquarters site in the centre of Frankfurt.

The move follows the sale last week of an 80 per cent stake in its Buderus engineering subsidiary, which raised DM1.2bn.

The Frankfurt site could have a market value of DM750m (\$460m), Metallgesellschaft said, but cautioned that not all the proceeds would flow to its coffers

as the land is jointly owned with a company controlled by Dresdner Bank.

The group said it had entered into negotiations to sell the land as it made no business sense to have administrative offices, a car park and research laboratories on so valuable a site.

The planned sale of the land and the disposal of the Buderus stake come against the background of continuing business problems at MG Corp, the group's New York-based trading subsidiary, whose speculative trading in oil derivatives brought Metall-

gesellschaft to the brink of collapse in January.

MG Corp was still a "machine for losing money", Metallgesellschaft's chairman Mr Eajo Neukirchen warned yesterday in an interview in the employees' magazine. Problems in the US represented the biggest challenge to Metallgesellschaft's recovery plans, he said.

MG Corp has become entangled in the affairs of Castle Corporation, a US oil refinery with which MG Corp has entered into a number of what Mr Neukirchen called "inexplicable" contracts.

The contracts obligate MG Corp to supply Castle with crude oil and help it finance the oil purchases.

Then MG Corp is obliged to buy back the oil from Castle - 40 per cent owned by MG Corp itself - at above the market price until the year 2000. Mr Neukirchen said he was trying to extricate MG Corp from the contracts but he could not predict when a solution might be found.

These contracts have required Metallgesellschaft to set up fresh provisions to cover risks arising from the north American operations. The scale of the provisions has not been disclosed but they are thought to be at least DM1bn.

Mr Neukirchen insisted that the sales of land and assets were not a direct result of the north American problems, although earlier in the year the sale of the Buderus holding had been ruled out.

Analysts had suggested that the change of heart implied that the Buderus disposal was a "forced sale". Metallgesellschaft had total debts of more than DM6bn at the end of March.

## Foster's makes big move in China

By Nikki Tait in Sydney and Louise Lucas in Hong Kong

Foster's, the Australian brewery group, is joining forces with Wheelock, the Hong Kong-based trading house, to make a push into brewing in China.

The companies said yesterday they were evaluating projects in the cities of Tianjin, Wuhan and Chengdu. They plan to spend US\$1bn over five years.

Foster's already has two joint ventures in Guangdong province and Shanghai, and said its aims fitted neatly with Wheelock's strategy, which centres on the development of five "regional hubs" - Guangzhou, Shanghai, Wuhan, Chengdu/Chongqing and Beijing/Tianjin.

The Australian group has created a Foster's Asia division, incorporating existing Chinese interests. The decision to exploit Asian expansion opportunities comes as Foster's UK and north American interests are suffering from sluggish demand and extremely competitive conditions.

By contrast, Foster's pointed out yesterday that the beer market in China grew by about 23m hectolitres in 1993, to around 123m hectolitres - making it the world's second largest market after the US, easily surpassing the Australian total of 17m hectolitres.

It also pointed out that the Chinese brewing industry remained fragmented, with more than 800 breweries, only 10 of which produce more than 1m hectolitres and none above 2.5m hectolitres.

The move marks Wheelock's first foray into brewing. Mr John Hing, an executive director, said the group recognised brewing's massive potential in China.

Less than 10 per cent of Wheelock's assets are in China, but there are plans to increase this to a maximum of 20 per cent.

The venture will marry Foster's brewery skills with Wheelock's China know-how and property development expertise. Mr Hing said: "Wheelock has always been the party, in any joint venture, that brings to the table a number of things: local knowledge, financial strength, corporate muscle in Hong Kong and China connections, and will help seek sites."

The market leader is Tsingtao, the local brewer whose shares are traded in Hong Kong. However, foreign brands are jockeying for market share.

## Nasdaq holds talks on forming European exchange

By Norma Cohen, Investments Correspondent

Nasdaq, the US screen-based exchange which is the world's second largest stock market by turnover, is holding talks with potential partners about creating a pan-European exchange for small and medium-sized companies.

Mr Joseph Hardiman, Nasdaq president, said the new exchange could be formed quite quickly - perhaps in the next 12 to 15 months. Nasdaq would seek to be a minority shareholder, he said.

Potential participants include the European Venture Capital Association, the UK-based City Group for Smaller Companies and several European bourses.

Before Nasdaq would commit itself, Mr Hardiman said, "we have to make sure there are no overwhelming regulatory hurdles and we have to make sure there is a critical mass of buyers of these securities".

Mr Jean-Francois Theodore, president of the Societe des Bourses Francaises, which runs the French market, has confirmed that he is one of the parties to the discussions.

Mr Theodore intends to form a French-based working group of investors, regulators and intermediaries to study the issue and hopes that a report can be prepared by October.

Should the bourse participate in a pan-European exchange, it too would hope to hold a minority stake.

A bourse official said there was a particular need to provide an exchange for companies for which the Paris unlisted securities market was inadequate but for which full listing was not feasible.

Mr Hardiman said: "We are hoping to jointly develop a true international securities market." He added that the ability to trade securities at "all hours" might be one of its attractions.

One possibility might include the opportunity for companies listed on the exchange to be simultaneously listed on Nasdaq, giving access to the US capital markets.

"We are still in the very early stages of fleshing this out," Mr Hardiman said. While Nasdaq attributes much of its growth to its specialisation in the shares of small, entrepreneurial, high-growth companies, it is not clear that a European version would be equally successful.

Mr Hardiman expressed disappointment that the London Stock Exchange had rebuffed his earlier suggestion that it should become a participant.

The London exchange recently announced its own plan to promote trading in shares of smaller companies. Lex, Page 18

## Conner Middelmann and Graham Bowley report on a continuing bear market

Yields diverge and short-term interest rates turn, even though inflation remains low



Bond fund managers have had a rough ride in the first half of this year, and the second half is shaping up to be just as difficult.

Most investors expected last year's bull run to continue, fuelled by further cuts in European short-term interest rates and low-inflation economic growth. Instead, government bond markets have experienced a collapse in sentiment which has pushed up nominal 10-year yields in Europe by between 170 and 250 basis points since the end of 1993. Reversing last year's convergence trend, yields have diverged sharply, with the higher-yielding markets worst hit.

The yield spread of the UK 10-year gilt over the German bund has widened to about 150 basis points, from 41 at the start of the year; the French spread has expanded to plus 82 from minus 8; and the Italian yield premium has jumped to more than 350 from 256 in April.

The sell-off began early in the year, when hedge funds and other highly leveraged players took profits, offloading massive bond holdings. When on February 4 the US Federal Reserve raised short-term interest rates, this signalled the end of the low interest rate era and inflation fears prompted further selling.

Since then every piece of data showing strong growth in the US economy and recovery in Europe has triggered further falls in the bond markets. Rising commodity and oil prices have further fuelled fears of inflation.

In this bearish environment, most bond funds have put in a sorry performance. According to Micropal, the fund performance measurement service, 98 UK-based global bond funds posted an average loss of 6.4 per cent in the first five months of the year, with performances ranging between plus 5.2 per cent and minus 15.8 per cent.

So, what now? "Judging by the fundamentals, with low inflation and low interest rates, bonds everywhere look extremely cheap," says Mr John Sheppard, chief economist at Yamaichi International. "Yet we have been saying that for three months now and they are still getting cheaper by the day." After getting their fingers burnt, fund managers, most investors have embarked on a "buyers' strike" and are refusing

## Rocky road offers no respite for bonds

to take on new positions.

Many say the markets' inflation paranoia is overdue. They point to the current benign environment - with inflation rates in the US, Germany and the UK at or below 3 per cent - and to forecasts that inflation will remain subdued for the rest of 1994. Yet bond markets continue to fall, and implied future interest rates in the money markets indicate that dealers expect European interest rates to rise before the end of the year.

But while inflation fears and other perceived risks may have contributed to the rise in nominal yields, "the key is the rise in real yields," says Mr Sheppard.

Real yields - over and above inflation - have risen to about 4 per cent in the UK from 2.5 per cent at the beginning of the year. The main reason is a sharp increase in supply: investors offloading their bond holdings, financial institutions offsetting losses in their marketmaking and proprietary trading activities, and, most importantly, government issues to finance large budget deficits.

Real yields have also been driven higher by the pick-up in world economic growth. Capital will be needed to fuel that growth, and there is talk of an impending global capital shortage.

What is more, "there has been a sea change in the international economic policy environment," says Mr Neil MacKinnon, chief economist at Citibank in London. "Governments' commitment to keeping inflation down, rather than stimulate growth to reduce unemployment, is being doubted."

Political uncertainty in Europe's election year, further fiscal slippage, continued growth of German money supply and hints of disagreement in the UK between the central bank and the Treasury are fuelling doubts. "My advice to investors is to use any rally to reduce exposure to bonds," says Mr MacKinnon.

Ironically, the sharp rise in long-term yields may turn out to be a blessing. Higher long-term interest rates, to which a large amount of borrowing is pegged, may damp some growth optimism and resulting inflation fears that initially contributed to the bond sell-off. Mr John Lipsky, chief economist at Salomon Brothers in New York, says the increase in European yields "will undermine growth expectations directly".

Moreover, "the latest bond yield rise will increase the pressure on European governments to tighten fiscal policy further, rather than watch passively as higher debt financing costs push budget deficits - and real long-term bond yields - still higher," Mr Lipsky argues.

Some take an even gloomier view. "The risk is high that the

world will sink back into recession before the end of the year," warns Mr Stephen Lewis, director of research at the London Bond Broking Company.

Many say the outlook for the second half hinges on US developments. If growth there shows signs of slowing, fears of further interest rate tightening may ease, allowing treasuries to stabilise. Until then, European bond markets are expected to be volatile.

"We are running defensive positions consisting of cash, short-dated paper and reduced exposure to the peripheral markets in favour of the core markets," says Mr Paul Aberley, head of fixed income at fund managers Lombard Odier. Historically, bear markets have lasted for two to three years. By that standard, the current bear market is still in its early days.

## ICI picks outsider for chief

By Tony Jackson in London

Imperial Chemical Industries, the UK bulk chemicals company demerged from the old ICI a year ago, has underlined its break with the past by appointing an outsider as its new chief executive.

Mr Charles Miller Smith, an accountant, will join ICI from the Anglo-Dutch consumer products group Unilever. A former finance director, he now runs its food operations in southern Europe. He will take over next April on the retirement of Sir Denis Henderson as chairman. Sir Denis will be succeeded as chairman by the present chief executive, Mr Ronnie Hampel.

The present finance director, Mr Colin Short, was brought in from the US oil company Chevron in 1990. However, Mr Miller Smith will be in day-to-day charge of ICI, since Mr Hampel's job as chairman will be part-time.

In the old ICI before demerger, the tradition was for the top job to be contested between rival barons from the operating divisions. However, as a result of the demerger and retirement, the old guard has been largely swept away. Besides Sir Denis, Mr Hampel and Mr Short, the members of the slimmed-down executive board are all recent arrivals, and most are under 50.

Mr Miller Smith, 54, is thought to have been an unsuccessful candidate last year for the chief executive's job at Barclays Bank, which went to Mr Martin Taylor

of Courtaulds. In December he was pipped for the job of chairman elect at Unilever by Mr Niall Fitzgerald. His present job at Unilever involves running a business with a turnover of some £4bn (\$6bn) about half the size of ICI.

ICI described Mr Miller Smith as "somebody different" from most other ICI directors. He has worked in Unilever's speciality chemicals division, and has spent time abroad, in India and the Netherlands. Like Sir Denis and several other ICI bosses before him, he is Scottish. He has also been a non-executive member of the ICI board for the past year.

Mr Miller Smith might be expected to succeed as chairman on the retirement of Mr Hampel, who is 62, in around three years' time. Lex, Page 18

**Kingdom of Sweden**

US\$192 million  
Currency Equivalent

Ten Year Private Placements  
April 1994

**Eni**  
ENI International Bank Limited

US\$100 million

Hill Samuel arranged a Term Loan Facility

**Impofin (Pty) Ltd**

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Project Line of Credit

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**Ministry of Transport, Communications and Water Management, Republic of Hungary**

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## INTERNATIONAL COMPANIES AND FINANCE

## Top-level shake-up as Tetra Laval chief quits

By Hugh Carnegie  
in Stockholm

Tetra Laval, the leading Swedish packaging group, yesterday announced a shake-up of senior management following the sudden departure of Mr Uno Kjellberg as chief executive of the group's biggest division, Tetra Pak.

Tetra Laval said Mr Kjellberg, in charge of Tetra Pak for three years, was quitting due to differences with the group board over strategies at Tetra Pak, which makes systems for liquid food processing, packaging and distribution.

The privately-owned group gave no further details on the decision. "We cannot go into details without revealing information about our future strategies to our competitors," the company said.

It said Mr Gunnar Brock, head of Alfa Laval, which makes packaging machinery, would succeed Mr Kjellberg at Tetra Pak. Mr Lars Hallden, Tetra Laval group chief executive, would head Alfa Laval until a new chief executive was appointed.

The shake-up was the first sign of differences at the top level since Tetra Laval was cre-

ated when Tetra Pak, owned by the Rausing family, acquired Alfa Laval for \$2.5bn in 1991 in Sweden's biggest takeover deal. The two merged operations at the beginning of last year with the aim of providing complete food processing and packaging systems from the farm to the end consumer.

The secretive group, which employs 33,000 people worldwide, is divided into four divisions. It does not reveal profit figures, but says it had turnover in 1993 of SKr61bn. Tetra Pak accounted for SKr43.4bn (\$17.7m).

## Rationing introduced at Louis Vuitton

By Diane Summers and  
Alice Rawsthorn in Paris

Louis Vuitton, the French luxury luggage manufacturer, is rationing customers to one or two purchases at a time because of a surge in demand for its products, Mr Yves Carrelle, chairman, said yesterday.

The company, part of the LVMH group, saw sales of more than FF80m (\$80m) last year - an increase of more than 20 per cent on the year before. New factories are under construction to meet the demand, which is particularly strong from Japanese customers who buy up to half of the 2m exclusive items a year.

The rationing means that customers visiting any of Louis Vuitton's 175 shops around the world are being told politely they can only buy one item or, for some lines, two items.

Handbags are typically priced at \$250-\$400, while cabin trunks are upwards of \$4,000 (\$6,080) apiece.

The rationing harks back to the era of the mid-1980s when Chanel, the Paris fashion house, faced so much demand from Japanese tourists for its classic quilted leather handbags that it limited them to one bag each. One group of tourists was caught trying to bribe passers-by outside Chanel's flagship store on Rue Cambon in Paris to persuade them to go in and buy more bags from them.

Louis Vuitton is not the only luxury company to have experienced healthy growth since the start of this year. Cartier, the French jewellery group, has fared well, as has Hermès, the silk and leather house.

One of the chief catalysts for the revival has been an improvement in the US and UK markets as economic conditions have improved.

However, the main source of growth in the late 1990s is expected to be the emerging Asian economies - such as Taiwan, the Philippines and even China - which could, or so the industry hopes, become as dynamic as Japan was in the mid-1980s.

## Lotus enters the persuasion market

The computer group is convinced it is taking the right path, says Alan Cane

Lotus Development Corporation suffering one of those bouts of technical gaucherie which overtakes every software house from time to time, or is its predicament evidence of a deeper malaise?

If the latter, it is a local difficulty or one that is afflicting the entire packaged software industry? There is growing speculation that Lotus's troubles are harbingers of a wave of change which will reshape the global packaged software industry. "All the large software houses are in for a very rough time until the end of the decade," says Mr Richard Holway, a leading industry analyst.

Lotus warned on Monday that its quarterly earnings to the end of June were likely to be only 20-25 cents a share compared with 34 cents a year ago and analysts' expectations of nearly 50 cents.

The market, surprised and shocked, reacted by marking the shares down \$14 to \$37, some \$50 off the peak for the year. It queried whether Lotus was losing market share to Microsoft, its principal rival.

Lotus this week brazened it out, claiming that the slippage was a one quarter issue, the result of delays in upgrades to a number of its software products. The underlying strength of its communications products business was not in doubt, it said.

Mr Ed Gillis, Lotus chief financial officer, said yesterday that software houses find their sales boosted for the two quarters after new product introductions. Lotus intended to

launch six new products in July and August, so he was confident of an improved financial performance in the latter part of the year.

It is a persuasive argument. Every software house experiences technological difficulties which force them to delay or postpone products and upgrades. It took Microsoft, the world's largest personal computer software company, five years, for example, to bring a commercially successful version of "Windows", the best-selling graphical interface for its MS-Dos operating system, to market.

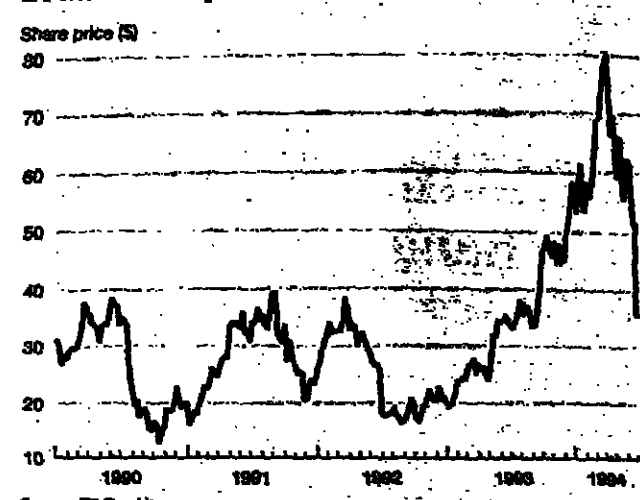
According to Mr Gillis, the present delays are because of the complexities of integrating suites or collections of programs so they interwork with one another; a change to one program means further work on all the others.

Lotus, furthermore, seems to be an exception to the rule that software houses are "one product wonders" which cannot replicate early successes.

After making its reputation in the 1980s with the market leading spreadsheet "1-2-3", it had a fallow period in terms of new, exciting products until the past couple of years when "Notes", software which makes it possible for groups of people to share information, began to find favour with large organisations. Andersen Consulting has installed Notes worldwide and AT&T has formed a joint venture with Lotus to market Notes to a broader audience.

Notes is the undisputed leader in this "workflow" software which accounts for 30 per cent of Lotus's \$1bn revenues.

Lotus Development



The larger threat, however, which applies to every software house, including Microsoft, is pricing. The cost of packaged software is falling in a fashion reminiscent of the collapse in computer hardware prices. Global figures are hard to come by but Mr David Tremblay, research director of the Software Publishers Association whose members include all the large US software developers, points out that unit shipments of packaged software grew 75 per cent in Europe last year but prices failed to keep pace. "Aggressive pricing by publishers has limited revenue growth for Europe to 11 per cent" - a 37 per cent decline in unit price in a year.

The pattern is evident in the US, where software publishers have taken the lead in offering software at seemingly unprofitable prices. Borland International, for example, cut the price of its spreadsheet to

\$49.99. It has since sold its spreadsheet product line to Novell.

A second approach, pioneered by Microsoft, has been to sell a bundle of programs at a heavily discounted price. Lotus is advertising a suite of five of its most popular programs for \$299 (\$454) (\$199 to existing Lotus users), a price which one analyst described as "suicide". One of the programs, 1-2-3, has a recommended retail price in the \$300 region.

Analysts believe that the trend to lower prices is inexorable and that software houses must branch out into services, a tack now being adopted by most hardware companies, if they are to maintain margins and survive. Mr Gillis says Lotus is already moving in that direction with its Notes workflow products. The decline in Lotus' share price over the past year indicates that investors may not share his confidence.

## Portuguese telecoms merged

By Peter Wise in Lisbon

Portugal's three state-owned telecommunications companies are to be merged today into a single unit. The new utility which will be the country's largest company, is to be partially privatised by mid-1995, government officials said yesterday.

The creation of Portugal Telecom is the first step in a restructuring that will bring all the country's main telecommunications services under the management of a single state monopoly.

The utility is to be progressively privatised but the state will keep a "golden share," enabling it to veto strategic decisions. Privatisation is to

begin next year with a public offer of 25 to 30 per cent. The operator would later seek an international partner, officials said.

Portugal Telecom will be formed from three companies: Telefonos de Lisboa e Porto, which operates basic services in Lisbon and Oporto; Telecom Portugal, which runs services in the rest of the country and with Europe and the Mediterranean area; and Teledifusão Portuguesa, which beams television signals.

Subsidiaries of the three companies that operate mobile telephone, cable television and data transmission services are also to be brought into the new utility. Portugal Telecom will have 22,000 employees and an

estimated value of more than \$1,000bn.

Radio Marconi, which operates Portugal's intercontinental telecommunications services, will subsequently be merged with Portugal Telecom. The officials said private investors, who own 49 per cent of Marconi, were expected to be given a choice of selling their shares to the state or exchanging them for shares in Portugal Telecom.

The government has not yet decided whether to sanction a proposal for a \$30bn (\$224m) management buy-out of Marconi's 40 overseas subsidiaries and its 33 per cent holding in Telecomunicações Móveis Nacionais, a state-controlled mobile telephone operator.

## Peugeot sees 'real chance' of profits

By John Riddling in Paris

Peugeot Citroën, the French car group, has a "real chance" of returning to profit this year, despite an expected slowdown in the growth in the European car market, Mr Jacques Calvet, chairman, said yesterday.

Addressing a shareholders' meeting, Mr Calvet said it was still too early to say whether the company would achieve its three financial aims for this year - a return to profit after losses of FF1.4bn (\$250m) in 1993, covering investments through cash flow and a

sharp reduction in group debt. The Peugeot chief said, however, that "the first indications we have been able to get lead us to think that barring a shake-up in the car or currency markets, our chances of succeeding are real".

According to Mr Calvet, sales rose strongly in the early part of the year. In France, he said, sales had increased by 16 per cent in the first five months, partly because of government measures to stimulate the industry. These measures included paying FF5,000 to car owners who traded in vehicles

more than 10 years old to buy a new one.

The impact of these measures has, however, begun to wear off. Mr Calvet described the recovery in the European and French car markets as fragile, and partly artificial.

Mr Calvet said that hard times still lay ahead, resulting from overcapacity in the market, and uncertain demand. As a result, Peugeot Citroën will continue to cut costs. This year, the company would again aim for a 12 per cent improvement in productivity, Mr Calvet said.

## Royal Bank sells its £116m stake in 3i

By John Gapper,  
Banking Editor

Royal Bank of Scotland yesterday disclosed that it had sold its entire £116m (\$176.32m) stake in 3i, the largest European investor in unquoted companies. The announcement came as 3i set a price of 272p per share for the flotation of £711m of equity.

Royal Bank sold because a diluted stake would have

stopped it taking increases in 3i's net assets into profits. Bank of Scotland retained its shares, while National Westminster remained the biggest holder, with 17.9 per cent.

3i said it was pricing the shares at a 13.5 per cent discount to net assets, and it was selling 45 per cent of its equity - rather than 40 per cent - because of strong demand.

The company, owned by seven high street banks and

the Bank of England since its formation in 1945, revealed details of a £36m share option scheme for 140 senior managers intended to discourage them from leaving. The options would cost £18.7m to exercise and net the managers £17.3m at the offer price. The scheme has been in place since 1984 and requires managers to wait for three to 10 years to exercise options.

Mr Ewen Macpherson, chief

executive, said that although 3i had a unique franchise, it was "an extremely good training ground for a variety of other companies".

3i confirmed it had received bids of £1.2bn from mainly UK institutional investors during the bookbuilding exercise. This was more than twice the £533m placed firmly with institutions.

Lex, Page 18; Banks' decisions, Page 26; Observer, Page 27



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Furman Selz Incorporated

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3,325,000 Shares

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Furman Selz Incorporated

Smith Barney Inc.

CS First Boston

Dean Witter Reynolds Inc.

Donaldson, Lufkin & Jenrette

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Merrill Lynch & Co.

Montgomery Securities

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The Buckingham Research Group

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Gruntal & Co., Incorporated

Ladenburg, Thalmann & Co. Inc.

Sutro & Co. Incorporated

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Brean Murray Foster Securities Inc.

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First Equity Corporation

First Manhattan Co.

Pennsylvania Merchant Group Ltd

This tranche was offered in the United States.



## INTERNATIONAL COMPANIES AND FINANCE

## Air France asked to speed up sale of hotels chain

By John Riddling in Paris and Michael Skapinker

The French government has asked Air France, the state-owned airline, to re-open negotiations with bidders for a controlling stake in its Meridien Hotels chain for a rapid conclusion of the sale.

The negotiations will be based on a report by France's privatisation commission, an independent body which advises the government on the sale of public sector assets, according to the economics ministry yesterday.

Forté, the UK hotels group, and Accor of France, are vying for control of the Meridien, in which Air France holds a 57 per cent stake. A decision on their bids was delayed in April and the dossier was sent to the privatisation commission for its opinion.

The economics ministry said Mr Edmond Alphandery had recently received the views of the privatisation commission on the relative merits of the two bids.

The ministry said the report identified the questions which needed to be discussed in greater detail with the bidders. However, it indicated that it did not express an overall preference.

Once an agreement has been reached between Air France

and the successful bidder, the choice will be presented to the privatisation commission.

No deadline has been set. Yesterday's announcement coincided with news that the Meridien hotels group fell into a net loss of FF29.7m (\$5.3m) for 1993, compared with a profit of FF11.2m for 1992.

The battle for control of Meridien has become highly sensitive. Forté's is the higher bid, valuing the luxury hotel chain at FF1.8bn compared with the FF1.6bn offered by Accor and its partner, Prince Al-Waleed Bin Talal of Saudi Arabia.

Meridien's management has expressed a preference for the Forté bid, but political pressure has been brought to bear to keep the hotels chain under French control.

Forté yesterday welcomed the French government's call for the decision to be taken quickly. It said that further delay could lead to Meridien managers leaving and the chain losing contracts to manage hotels.

It said it expected to be given further details of the government announcement in the next few days.

Air France, which suffered losses of FF73.46m last year, needs to raise cash to reduce debts.

## Microsoft and NTT in multimedia alliance

By Michio Nakamoto in Tokyo

NTT, the Japanese telecommunications company, and Microsoft, the US software giant, have agreed to co-operate in developing an interactive multimedia system that could take Japan's ambitions in this area a step further towards realisation.

Multimedia provides interactive text and video services to the home and office.

The two companies are to develop the hardware and software, such as video-on-demand, from both the supplier and customer ends.

The agreement follows a deal announced in March for the two companies to develop a software distribution system. It brings together two of the most powerful companies in their respective industries.

Under the deal, NTT will participate at the end of this year in an interactive multimedia system being tested by Microsoft and TCI, the US cable company.

Microsoft, in turn, will provide its multimedia system software for tests by NTT, which will begin in 1995. The outcome of the joint development will be used for these tests.

The interfaces the two companies will co-operate to develop could include the links between the set-top box and telecommunications networks, the server and network, application and set-top boxes, and the server and service programmes, Microsoft said.

The set-top box is the hardware connected with the terminal, typically a television set, to allow users to send and receive interactive information.

The server is a storage and processing unit that stores information such as video, sound, voice and data and sends such information to users or receives information back from users.

## Mycom expands in lottery group

Mycom, the Malaysian gaming and property group, plans to acquire a 51 per cent stake in Richland Worldwide which has interest in a Papua New Guinea gaming company, Reuters reports from Kuala Lumpur.

Mycom will buy the Virgin Islands-based Richland stake for US\$5m in cash. Richland owns a 70 per cent interest in The Lotin, a company which operates a lottery business in Papua New Guinea.

## Searching for consensus on risk assessment

Traders and market regulators are changing their focus, reports Tracy Corrigan

Fears about derivatives risk have tended to centre on credit risk, potentially snowballing into systemic risk and bringing about the collapse of the international financial system.

But there is a growing school of thought which argues that this focus is misplaced. According to many market participants, market risk is a much more fundamental danger than credit risk, and existing measures for risk management are often misguided.

Because derivatives are highly leveraged, losses on market positions have been exaggerated, and volatile conditions this year have caused assumed correlations between markets, on which hedging of derivatives is often based, to evaporate. Consequently, volatile markets can prove more dangerous for the derivatives trader than for the cash market trader.

In fact, many derivatives specialists argue, credit risk in the derivatives market only becomes a serious problem as a result of market risk: in most cases where heavy losses have been incurred, it has been as a result of a lack of understanding of market risk. Credit risk, on the other hand, is arguably the same for derivatives as for other markets. In its recent

## DERIVATIVES

report on derivatives, the US General Accounting Office concluded from its survey of 14 US participants that the net credit risk from derivatives at the end of 1993 was only \$68bn - much smaller than for loans. (This assumes that netting of derivatives is enforceable).

Regulators who are primarily concerned about credit risk could be backing up the wrong tree. Many market participants

think they are, arguing that regulators pay too little heed to the way that derivatives specialists look at risk. For a derivatives trader, the key issue is the present value of a particular position, and an important part of the job is to create models to calculate this, using historical data.

The Basle Committee is currently working on new capital rules for market risk, but the approach detailed in consultative papers circulated last year has been widely criticised by market participants as bureaucratic and antiquated.

In a recent speech, Mr William McDonough, president of the New York Federal Reserve, noted that market participants are arguing that "the market risk measurement models the banks had developed for their own risk management offered a means to measure capital requirements with greater precision and with much lower

regulatory burden than the proposed supervisory model." Mr McDonough described the consideration of a model-based approach as "a major step for the international supervisory community," but did not rule it out.

The problem, though, may extend beyond regulators, touching the entire conceptual approach to derivatives. Many regulators come from a loan officer tradition, and therefore their approach may be fundamentally at odds with the way the market actually functions.

This explains, too, the growing sense of dissatisfaction with the accounting treatment of derivatives, which means that information in company reports on derivatives business is often meaningless.

"Accounting should reflect economics," argues Mr Flavio Bartman, managing director, commodity derivatives at Mer-

rell Lynch. "We have principles of accounting that were drafted for a world where you only had bonds and stocks."

According to Mr Michael Black, head of consultancy at CSC Index, who advises firms on derivatives risk management, "accounting systems define value in terms of capital: derivatives in terms of the net present value of a position: these are apples and pears."

Similar problems may arise within the senior management of banks, which often focus too closely on return on capital, according to Mr Black.

Derivatives traders themselves, of course, have their own vested interests and preconceptions. But, increasingly, finding transferable values which allow traders, regulators, accountants and senior managers to discuss risk management in the same terms is becoming one of the goals of the current debate.

## Police seize papers at Ferruzzi unit

By Robert Graham in Rome

Police yesterday seized documents from the Milan headquarters of Gaic, the finance company controlled by Ferruzzi Finanziaria and the family of Mr Camillo De Benedetti.

The move was ordered by Ravenna magistrates investigating the parallel accounting and alleged illicit financial operations of the Ferruzzi group that forced its collapse last June.

It is a potentially important

development, in that part of their investigation concerns the behaviour of Mediobanca, the Milan merchant bank, which was given a mandate to restructure the Ferruzzi group's L30,000bn (\$18.7bn) debts on June 4 1993.

Until a year ago, Gaic held a majority stake in Fondiaria, the insurance group. The documents seized relate to a board meeting of June 29 1993, which decided to raise L1,000bn for Fondiaria. Since Gaic lacked the funds to subscribe to the issue, the capital move in

effect removed Fondiaria from Ferruzzi's control. The Ravenna magistrates are trying to establish at what point Mediobanca was given full control over the Ferruzzi rescue, and the role played by the merchant bank in the Fondiaria affair.

Executives at Mediobanca and three other banks involved in the Ferruzzi rescue have been questioned as to whether they had prior knowledge the group's accounts were false, concealing losses of L430bn. All have denied improper banking conduct.

## S&amp;P changes outlook for Exxon to negative

By Richard Waters in New York

Standard & Poor's, the US rating agency, put another question mark over the top credit rating of Exxon after last week's jury verdict that the US oil company had acted recklessly in the Exxon Valdez oil spill in Alaska in 1989.

The agency affirmed Exxon's triple-A rating, but changed the outlook to negative. This

echoed an earlier move by Moody's, the other leading US rating agency.

The jury verdict leaves Exxon open to an assessment for punitive damages of up to \$1.5bn, in addition to actual damages claimed of \$1.5bn. The company has argued it should not pay any punitive damages.

Exxon, with Royal Dutch/Shell, has long been seen as one of the strongest credits in the energy industry.

## Bombardier buys Eurotunnel shares

By Robert Gibbons in Montreal

Bombardier, the Canadian aerospace and transport group, has been buying Eurotunnel shares on the stock market.

Mr Laurent Beaudoin, chairman, speaking at Bombardier's annual meeting, said he regarded Eurotunnel's share price following the rights issue as highly attractive. Bombardier would not reveal the size of its purchases.

"We may well buy more Eurotunnel shares in the near future, though we don't have any specific target," he said.

"We are convinced Eurotunnel shares will rally sharply as the Channel Tunnel system comes into full operation in the next year and revenues build up. We are confident the stock will prove an excellent investment for Bombardier shareholders."

Bombardier took delivery of 25m Eurotunnel shares following the completion of the Eurotunnel rights issue as partial

compensation for design changes and cost over-runs on its \$600m shuttlecar contract for the tunnel. It also has received C\$157m (US\$120.7m) in cash.

However, it cannot sell any of the block of Eurotunnel shares until the last shuttlecar is delivered next year.

Mr Beaudoin announced a 34 per cent increase in Bombardier profits for the 1994 first quarter and said the gain was indicative of results for the full year.

Business is strong in all divisions from aerospace, transit equipment to snowmobiles, watercraft and financial services. Losses on the transit equipment side have been reduced and aircraft deliveries will total more than 100 units this year.

Bombardier is close to approving plans to build a 70-seater regional jet. Mr Beaudoin said the decision would be made before the end of the year.

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Interest Period : 22nd June, 1994 to 22nd December, 1994 (183 days)

Rate of Interest : 5 1/4 % per annum

Coupon Amount : US\$ 1,334.38 (per note of US\$500,000)  
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In accordance with the provisions of the Notes, notice is hereby given that for the interest period from 23rd June, 1994 to 23rd December, 1994 the Notes will carry an interest rate of 4.9375% per annum. The interest payable on the relevant interest payment date, 23rd December, 1994 will be US\$250.99 per US\$10,000 Notes and US\$6,274.74 per US\$250,000 Note.

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NOTICE TO HOLDERS OF EUROPEAN DEPOSITARY RECEIPTS TO BEARER (EDRs)

In accordance with Clause 16 of the Deposit Agreement dated 17th September 1976, Mitsubishi Bank Limited hereby gives notice of the convening of the 7th Ordinary General Meeting of Mitsubishi Marine & Fire Insurance Company Limited.

The particulars are as follows:-  
1. Date and time: 10.00 a.m. on June 29th 1994 (Wednesday)  
2. Place: In the conference room on the first floor of the head office of the Company, located at 5, Raffles Place, Singapore 048621.

3. Purpose of the Meeting:  
Mitsubishi Bank Limited, as the Depositary, hereby gives notice of the convening of the 7th Ordinary General Meeting of Mitsubishi Marine & Fire Insurance Company Limited.

SECOND ITEM: Partial amendments to the Articles of Incorporation.  
The amendment of the Articles of Incorporation is contained in the "Reference Document Concerning the Amendment of the Articles of Incorporation" (the "Reference Document") which is available for inspection at the head office of the Company.

THIRD ITEM: Election of two (2) Directors.  
FOURTH ITEM: Election of four (4) Directors.  
FIFTH ITEM: Presentation of resignation of retiring Directors and the appointment of new Directors.

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Floating rate notes due 1995 Initial Tranche \$200,000,000

For the interest period 21 June 1994 to 21 September 1994 the notes will bear interest at 5.1875% per annum. Interest payable on 21 September 1994 per \$100,000 note will amount to \$1,307.53.

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All of these securities having been sold, this announcement appears as a matter of record only.

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CAISSE DE DEPOTS ET CONSIGNATIONS  
N M ROTHSCHILD AND SMITH NEW COURT  
CAISSE NATIONALE DE CREDIT AGRICOLE  
ROTSCCHILD ET CIE BANQUE  
BANCLAYS DE ZOETE WEDD LIMITED

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CAISSE NATIONALE DE

## INTERNATIONAL COMPANIES AND FINANCE

## Parker &amp; Parsley files suit against Bridge bid rival

By Nikk Tait in Sydney

Parker & Parsley, the Texas-based oil independent which is bidding for Sydney-based Bridge Oil, has begun legal proceedings against Gantry, the rival suitor for Bridge, in the Dallas district courts.

Gantry is the bid vehicle being used by JEDI, an investment partnership owned jointly by Enron, the US natural gas company, and the California Public Employees Retirement System, one of the biggest US public pension funds.

On Monday, Gantry entered the bidding for Bridge, offering 85 cents a share in cash and valuing the Australian company - whose assets span both the US and Australasia - at A\$356.7m (US\$274.3m).

This topped the P&P offer, increased only minutes previously, of 80 cents a share.

P&P said that its suit alleged breaches of the US Securities Exchange Act, under which companies making a tender offer are prohibited from purchasing shares outside that offer, unless a waiver has first been obtained from the US Securities and Exchange Commission.

It has also sought an order barring Gantry/JEDI from buying shares in Bridge, outside of the tender offer.

Meanwhile, P&P said it planned to have "petroleum engineering staff examining and evaluating data" related to Bridge Oil's US subsidiary with the aim of "fully evaluating options regarding the current offer of 80 cents a share".

P&P claimed that Gantry, whose bid has been recommended by the Bridge board, had access to additional, non-public information at Bridge Oil (USA). It has demanded similar access.

Bridge shares remained pegged at the 85 cents price bid by Gantry for most of yesterday, although one trade after the market closed lifted the shares to 86 cents.

The A\$500m bid by Mr Graeme Hart, a New Zealand businessman, in conjunction with Coles Myer, for Australia's Foodland Associated has been referred to the federal Treasury. "To examine potential implications for competition policy".

Under the proposed deal, Coles - one of Australia's largest retail groups - could end up owning the Australian assets of Foodland. This could give Coles a significant stake in the West Australian grocery market.

In the federal parliament, Senator Peter Cook, industry minister, said the government was watching events closely.

## Burns Philps in A\$117m German purchase

By Nikk Tait

Burns Philps, the Australian group which has been pruning its diverse business interests in order to concentrate on "core" food and ingredients operations, is buying Deutsche Beteiligungs, a German baking yeast and yeast extract business, for around A\$117m (US\$90m).

DBW is being sold by Veba, the large German energy, chemical and trading group, and comprises three factories, in Hamburg, Nuremberg and Leipzig. It has annual sales of around DM100m (\$61.3m) and employs some 315 people.

In Sydney, Burns said that the deal, which is still subject to approval by Germany's Federal Cartel Office, would lift its share of the global yeast extracts market to around 15 per cent. Its share of the German baking yeast market would stand at around 30 per cent.

Burns Philps already owns Mauri Products, a yeast manufacturer in the UK and has been aggressively building up overseas food ingredient interests recently.

Earlier this year it purchased Ostmann, Germany's largest retail spices manufacturer. Burns said it saw "synergistic benefits" from combining its existing yeast and spices businesses with DBW.

## Liberation movement lifts Latin America

The region has been one of the main beneficiaries of free capital, writes Philip Coggan

There have been many liberation movements over the last 30 years. But while women and some national minorities may still be battling for their freedom, there is one constituency which has been remarkably successful in liberating itself - capital.

Before the breakdown of the Bretton Woods exchange rate system in the early 1970s, it was time-consuming, expensive and difficult for citizens of most industrialised countries to buy foreign assets.

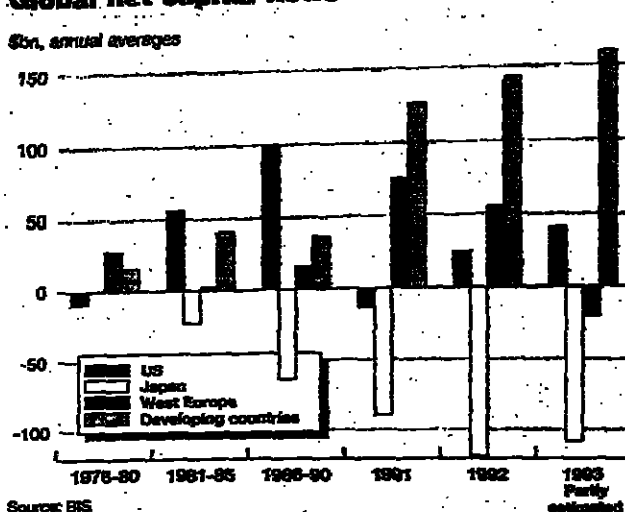
Now, after two decades of liberalisation and deregulation, freedom to own capital abroad has extended beyond the industrialised countries to include the "emerging markets" of Asia and Latin America.

Figures from the Bank for International Settlements' annual report, published last week, show the scale of today's international capital markets. In the first half of the 1990s, gross capital outflows from the major industrial countries (excluding official and short-term banking transactions) were around \$100bn a year. By 1993, flows reached \$850bn.

While the recent falls in world bond and equities markets may have slowed the relentless acceleration of such flows, it seems likely that growth will resume.

In the 1990s, the emerging markets have been the fashionable home for international investments. According to the BIS, net inflows into the devel-

Global net capital flows



oping world rose to around \$160bn in 1993, from an average of \$70bn a year in the period from 1980 to 1989.

The BIS said that capital has been particularly directed to Latin America (where inflows amounted to almost 5 per cent of GDP last year) and to lower wage Asian developing countries (about 4 per cent).

These capital inflows have been broadly welcomed as a return to the "correct" flow of capital between developed and developing countries - a trend which was interrupted by the debt crisis of the 1980s.

But the BIS warns that there were important differences in the nature of the inflows to the two regions - differences that

might create problems for Latin America in later years.

According to the BIS: "A large proportion of Asian capital inflows has been closely linked to increased domestic investment and imports of investment goods. This has contributed to real exchange rate stability in the region and has also helped to prevent excessive increases in domestic liquidity. In Latin America, by contrast, the influx of foreign capital - dominated by portfolio and short-term financial flows - was less directly associated with increased imports of investment goods and there was a greater degree of upward pressure on real exchange rates."

But the BIS warns that there were important differences in the nature of the inflows to the two regions - differences that

might create problems for Latin America in later years.

## Zambia Consolidated Copper falls into red

By Kenneth Gooding, Mining Correspondent

Zambia Consolidated Copper Mines, the world's fourth-largest copper producer, yesterday revealed a net loss of K72.6m (\$99m) for the year ended March. It had previously warned of a poor result.

In the previous 12 months there was a net profit of K41.6m.

However, Mr Edward Shamuete, chief executive, said last month that although production difficulties caused a loss

in 1993-94, ZCCM expected to break even in the current year and to be profitable in 1995-96.

ZCCM, which is listed in London, is being prepared for full privatisation by the Zambian government which owns 60 per cent, but the timing is far from clear. Anglo American Corporation of South Africa owns 27 per cent of ZCCM via Zambia Copper Investments.

At the operating level, ZCCM made a profit of K4.9m last year down from K108m. Copper production fell from 432,000 tonnes to 392,000 tonnes.

## Petron shares up for auction

The Philippine government will auction to the highest bidder 300m shares in Petron, the country's biggest oil refiner, Reuters reports from Manila.

Mr Delfin Lazaro, Energy Secretary, said: "It is possible that a single bidder can acquire all 300m shares." A further 700m will be sold at a fixed price of between seven and 11 pesos (US 40 cents).

The government plans to retain 40 per cent of Petron through Philippine National Oil. Petron is expected to be listed on the Philippine Stock Exchange by September.

## SA eco-tourism group expands

By Mark Suzman in Johannesburg

Conservation Corporation, the South Africa eco-tourism group, plans a R66m (\$18m) expansion into east Africa through the purchase of two wildlife lodges in Kenya and Tanzania and a share of an important hotel group in the region.

The two lodges, Kichwa Tembo Camp in Kenya and Ngongoro Crater Lodge in Tanzania, and the hotel group, Windsor Hotels, are part of the Abercrombie and Kent Group.

The deal has been financed through a R15m issue of new Conservation ordinary shares to the vendors and R51m in cash, which was raised through rights issues partially underwritten by Hambros Bank in London.

Mr Geoffrey Kent, Abercrombie and Kent chairman, will become joint chairman of Conservation with Mr David Varty, the current chairman. Mr Steve Fitzgerald, former chief executive of Halcayon Hotels, has been appointed managing director.

According to Mr Alan Bernstein, Conservation's deputy chairman, the move signals a

belief in the strong potential of African tourism.

"We expect to be very well positioned to take advantage of a positive trend in the South and east African tourist markets," he said.

Conservation, which was founded four years ago, is regarded as one of the premier eco-tourist operations in South Africa, where it runs four game lodges.

The Abercrombie deal is widely seen in South African financial circles as a precursor to a stock market listing in the next couple of years, either in London or Johannesburg.

## Investment bank set up in Czech Republic

By Vincent Boland in Prague

Three former executives of CS First Boston's Prague operations yesterday launched the first fully Czech-run investment bank catering to the country's growing number of corporate and private clients.

The new bank, Patria Finance, is headed by Mr Zdenek Bakala, who once worked in corporate finance with Drexel Burnham Lambert in New York.

Patria Finance has start-up capital of Kcs100m (\$3.5m),

and is 75 per cent owned by its management. A group of Swiss investors owns the balance.

Mr Bakala said Czech corporate clients are largely ignored in the country's financial services market. Investment banking services are currently offered either by commercial banks as a supplement to their core lending activities or by international investment banks which cater to overseas clients and operate with little regard for the specifics of the emerging local capital market.

**SIB**

**THE SECURITIES AND INVESTMENTS BOARD**

**NOTICE OF REVOCATION OF RECOGNITION OF LAUTRO**

**AS A SELF-REGULATING ORGANISATION**

The Securities and Investments Board in exercise of the powers conferred by Section 11 (1) (c) and Schedule 11 paragraph 5 of the Financial Services Act 1986 has revoked the orders of 28 April 1988 recognising LAUTRO Limited (Life Assurance and Unit Trust Regulatory Organisation) as a self-regulating organisation and as a self-regulating organisation for friendly societies for the purposes of the Act.

The revocation orders make transitional provisions for protecting investors and the legitimate interests of LAUTRO members. They come into effect for certain purposes on 1 October 1994.

Details of the transitional provisions may be obtained by any person likely to be affected by the revocation orders from SIB at Gavell House, 2-14 Bunhill Row, London EC1Y 8BA (Telephone 071 638 1240).

**U.S. \$150,000,000**

**Financière CSFB N.V.**

**Junior Guaranteed**

**Undated Floating Rate Notes**

Guaranteed on a subordinated basis as to payment of principal and interest by

**Financière**

**Crédit Suisse-First Boston**

**CSFB**

Interest Rate 4.75% per annum

Interest Period 23rd June 1994 to 23rd September 1994

Interest Amount due 23rd September 1994 per U.S. \$ 5,000,000 Note U.S. \$ 60.89 per U.S. \$100,000 Note U.S. \$1,213.89

**CS FIRST BOSTON**

Agent

**BAWAG**

**BANK FÜR ARBEIT UND WIRTSCHAFT A.G.**

(Incorporated with limited liability in Austria)

**U.S. \$75,000,000 Subordinated Floating Rate Notes due 1999**

In accordance with the terms and conditions of the above-mentioned Notes, notice is hereby given that the Rate of Interest has been fixed at 5.25% per annum and that the interest payable on the relevant Interest Payment Date December 23, 1994, against Coupon No. 20 in respect of U.S.\$100,000 nominal of the Notes will be U.S.\$266.68.

June 23, 1994, London

By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**Marine Midland Bank N.A.**

**U.S. \$125,000,000**

**Floating Rate Subordinated Capital Notes due 1996**

For the three months 23rd June, 1994 to 23rd September, 1994 the Notes will carry an interest rate of 5 1/8% per annum with a coupon amount of U.S. \$14.17 per U.S. \$100,000 Note and U.S. \$670.83 per U.S. \$500,000 Note. The interest payment date will be 23rd September, 1994.

Used on the London Stock Exchange

**Resident Trust Company, London Agent Bank**

Prices for clearing and settling the purposes of the clearing and settling in London and New York, as at 23.06.94

1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th	26th	27th	28th	29th	30th	31st
100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

**SIB**

**THE SECURITIES AND INVESTMENTS BOARD**

**NOTICE OF REVOCATION OF RECOGNITION OF FIMBRA**

**AS A SELF-REGULATING ORGANISATION**

The Securities and Investments Board in exercise of the powers conferred by Section 11 (1) (c) of the Financial Services Act 1986 has revoked the order of 14 December 1987 recognising the Financial Intermediaries Managers and Regulators Association as a self-regulating organisation for the purposes of the Act.

The revocation order makes transitional provisions for protecting investors and the legitimate interests of FIMBRA members. It comes into effect for certain purposes on 1 October 1994.

Details of the transitional provisions may be obtained by any person likely to be affected by the revocation order from SIB at Gavell House, 2-14 Bunhill Row, London EC1Y 8BA (Telephone 071 638 1240).

**Standard Chartered**

**Standard Chartered PLC**

(Incorporated with limited liability in England)

**£300,000,000**

**Undated Primary Capital Floating Rate Notes of which £150,000,000 comprises the Initial Tranche**

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the three months period (98 days) from 22nd June 1994 to 22nd September 1994 the Notes will carry an interest rate of 5 1/8% per annum.

The interest payment date will be 22nd September 1994. Coupon No. 37 will therefore be payable on 22nd September 1994 at 67.73 per coupon from Notes of £50,000 nominal and 67.73 per coupon from Notes of £5,000 nominal.

**J. Henry Schroder Wagg & Co. Limited**

Agent Bank

**U.S. \$750,000,000**

**Marine Midland Bank plc**

(Incorporated with limited liability in England)

**Undated Floating Rate Primary Capital Notes**

Notice is hereby given that for the six months period from June 23, 1994 to December 23, 1994 (183 days) the Notes will carry an interest rate of 5 1/8% per annum. The interest payable on the relevant Interest Payment Date December 23, 1994 will be U.S. \$127.78 and U.S. \$1,277.78 respectively for Notes in denominations of U.S. \$100,000 and U.S. \$1,000,000.

By: The Citibank Group, N.A. (Issuer Services), Agent Bank **CITIBANK**

June 23, 1994

**U.S. \$125,000,000**

**American Express Travel Related Services Company, Inc.**

(Incorporated in New York)

**Floating Rate Notes due 1998**

Notice is hereby given that for the three months period from June 23, 1994 to September 23, 1994 the Notes will carry an interest rate of 5 1/8% per annum. The interest payable on the relevant Interest Payment Date September 23, 1994 will be U.S. \$127.78 and U.S. \$1,277.78 respectively for Notes in denominations of U.S. \$100,000 and U.S. \$1,000,000.

By: The Citibank Group, N.A. (Issuer Services), Agent Bank **CITIBANK**

June 23, 1994

**RIGGS NATIONAL CORPORATION**

**U.S. \$100,000,000**

**Floating Rate Subordinated Notes due 1996**

In accordance with the provisions of the Notes, notice is hereby given that for the period 23 June 1994 to 23 September 1994 the Notes will carry a rate of interest of 5 1/8% per annum with a coupon amount of U.S. \$14.17.

**Chemical Bank**

Agent Bank

**LOW COST SHARE DEALING SERVICE**

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COMMISSION FREE \$10 MINIMUM TO \$999 INVESTMENT ANY TRADE

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As of June 27, 1994 payment of coupon number 5 of the International Depository Receipts will be made in US dollars at the rate of 30¢ per US dollar and 0.75¢ per share.

Payment will be made at one of the following offices of Morgan Guaranty Trust Company of New York:

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Notice is hereby given that the Rate of Interest has been fixed at 5.325% and that the interest payable on the relevant Interest Payment Date September 23, 1994, in respect of U.S. \$55,700 nominal of the Notes will be U.S. \$757.88 and in respect of U.S. \$2,275,000 nominal of the Notes will be U.S. \$2,275.88.

June 23, 1994, London

By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**AIRCRAFT LEASE PORTFOLIO SECURITISATION 92-1 LIMITED**

(Incorporated with limited liability in Jersey)

**U.S. \$104,000,000 Secured Class A3 Floating Rate Notes due June 1997**

Notice is hereby given that the Rate of Interest has been fixed at 5.3% and that the interest payable on the relevant Interest Payment Date December 23, 1994, in respect of U.S. \$10,000 nominal of the Notes will be U.S. \$294.83 and in respect of U.S. \$100,000 nominal of the Notes will be U.S. \$2,948.33.

June 23, 1994, London

By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**THE THAILAND INTERNATIONAL FUND LIMITED**

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## COMPANY NEWS: UK

Speedy input from MTM purchase and good start to current year  
**BTP jumps 48% to £30.3m**

By David Wighton

BTP, the specialty chemicals group which paid £106.7m for most of MTM's assets a year ago, beat City expectations with a 48 per cent jump in annual pre-tax profits, from £20.5m to £30.3m.

Earnings per share of 15.8p (12.7p) topped the previous record of 15.4p set in 1991.

Mr Frank Buckley, chairman, described the figures for the 12 months to March 31 as "not a bad performance" considering that most of the group's markets were in recession for a large part of the year. "The results from the MTM acquisition have come through more quickly than the market anticipated."

The shares rose 84p to 309.4p, helped by Mr Buckley's comments on trading. "There has been an encouraging start to the current year and there are positive signs that the recessionary conditions experienced in a number of our markets are now behind us."

The MTM assets contributed profits of £7.76m in nine months on sales of £56.8m out of total group turnover up 55m to £289.8m.



Frank Buckley (left) with Steve Hannam, managing director

US operations had performed "very much better than expected". BTP introduced some of its biocides, leather and textile chemicals into the MTM plants in the US, replacing UK imports which attract duty of more than 16 per cent.

US sales were also boosted by BTP's new industrial biocide in the last quarter. Annual growth in the global industrial biocide market is about 15 per cent, largely due to environmental pressures.

Profits from biocides and fine chemicals jumped to £12m (£4.94m), including £5.9m from a yield of 4 per cent.

the MTM assets. Sales more than doubled to £81.1m.

Performance chemicals, which includes tanning products, contributed £8.4m (£5.79m). The mainly UK-based industrial division turned in £6.63m (£4.1m) but adhesives and textile coatings slipped to £5.6m (£6.43m).

A 6.5p final dividend gives a 10p (9.3p) total, covered 1.6 times. Mr Buckley said the long-term aim was for dividends to be twice covered by earnings.

## ● COMMENT

Shareholders who supported last year's rights issue at 185p have been well rewarded for their faith. The MTM deal has paid off as predicted, giving BTP under-used capacity almost tailor-made for its needs. The full benefits are yet to come and combined with strong growth in areas such as industrial biocides and recovery in other markets BTP looks well-placed for the next couple of years. Assuming profits of about £39m this year, the shares are trading on 18 times forward earnings. Not expensive for the sector and there is a yield of 4 per cent.

## Eurotunnel take-up may be 'adequate'

By Simon Davies

The Spin deadline for Eurotunnel's £858m rights issue passed yesterday with the shares still weak, but underwriters expressing confidence in the likely level of take-up.

Figures for the UK-listed portion of the issue, representing 25 per cent of Eurotunnel shares, will be released today. Analysts suggest that between 10 and 20 per cent of the UK shares may not be taken up.

Shareholders were offered new units on a 3-for-5 basis at 265p, which compared with the price of £75p at 3pm. The shares rose at the end of trading and closed at 275p. Having maintained a 10p premium, underwriters expect the response to be "adequate".

The more significant figure, acceptance from the 75 per cent of bearer shares traded (and primarily owned) in France, will not emerge until the end of next week, but the figures should be better.

One underwriter expressed confidence in the heavy trading in the all paid bearer shares, since buyers would be almost certain to take up rights shares. Under the French system, investors who take no action lose their rights.

For Eurotunnel itself, the take-up makes little difference. It has raised its money and is adamant this is the last rights issue. Its only concern is that its warrants are converted.

Next year the company is anticipating revenues of £198m from warrant conversions. Following the decline in its share price, the shares are at least 10 per cent below the likely adjusted conversion price for the 1993 warrants (the largest tranche), and conversion cannot be automatically assumed.

This underlines the still precarious nature of Eurotunnel's finances, until it can demonstrate real traffic flows at least in line with projections.

## First Leisure shares fall despite advance to £14m

By Michael Stimpinger, Leisure Industries Correspondent

First Leisure yesterday announced interim profits up 16 per cent to £14.1m pre-tax, but warned that there was still no sign of a substantial upturn in consumer spending.

Mr John Conlan, chief executive of the discotheques, bowling and tourist attractions group, said consumers did appear to be going out more and spending more.

He added that market conditions were more encouraging than they had been for some time, but he said: "What we haven't seen is a boom around the corner. We shouldn't over-anticipate the speed and scale of the recovery."

The City reacted badly to the announcement, marking First Leisure's shares down 19p to 289p. Analysts said this was more of a comment on the prospects for leisure spending

generally than on First Leisure, which is seen as a well-managed group.

Turnover in the six months to May 1 rose 21 per cent to £62.9m. Earnings per share were up 7 per cent from 5.74p to 6.15p. The interim dividend is raised to 2.12p (3p).

Profits from tourist resorts fell 19 per cent to £1.3m, resulting from an increased depreciation charge and accelerated pre-season marketing costs. The group expects to benefit, however, from the publicity surrounding the centenary of the Blackpool Tower.

Profits from the sports division, which includes bowling, a marina and a health club, dipped 13 per cent to £6.6m. The fall resulted from bowling, where price increases in 1992 ran into consumer resistance. Mr Conlan said the group was in the process of introducing a new pricing policy with the aim of enticing bowlers back.

The discotheques division saw profits increase by 13 per cent to £8.5m. Spending per head was up 2 per cent.

## ● COMMENT

Reservations about First Leisure reflect doubts about the nature of post-recession spending throughout the economy. Few know whether consumers will resume their free-spending habits of the late 1980s, even when the good times have fully returned. Early evidence from First Leisure is that leisure consumers are not about to abandon their caution. A good summer in Blackpool might restore enthusiasm for the group. That partly depends on the vagaries of the British summer. Expected full-year pre-tax profits are £38.5m, with earnings of 17p. The prospective multiple of 17 fairly reflects the balance between competent management and an uncertain economic future.

## Shanks &amp; McEwan cuts dividend

By Peggy Hollinger

Shanks & McEwan, the waste management company, yesterday cut its dividend by 48 per cent and warned that uncertainty over government plans for bans on imported hazardous waste could lead to further disappointment in its Rechem business.

Mr Gordon Waddell, chairman, was announcing the group's plunge into the red with pre-tax losses of £5m (£10.2m profit) for the year to March 31. The swing into loss was the result of a £22m exceptional charge, which was flagged in a letter to shareholders in March, for losses on construction contracts and rationalisation.

Sales were down by 9 per cent to £120m, largely due to declines in the construction division and Rechem, the hazardous waste business.

Mr Waddell said Rechem's results had been disappointing, with lower waste ton-

nages and technical problems in the plants. This division would continue to be plagued by uncertainty until it became clear whether the government would ban imports of hazardous waste.

The UK incineration industry faces a difficult period over the next few years. Currently the government can ban hazardous waste imports, on which the group increasingly relies for revenue, but regulations to stop the dumping of treated hazardous waste into landfill sites are not expected for some time.

The dumping ban is widely expected to prompt a surge in demand for incineration.

Mr Waddell welcomed a recent government comment that incineration of imported waste could continue in limited quantities for up to three years. This was not enough, however. "Until we get some clarity, we are in serious trouble," he said. To reflect this uncertainty, the final div-

idend is cut from 3.44p to 1p, for a total of 3.24p (5.68p). Losses per share were 5p against earnings of 4.1p last time.

The other businesses were doing well, Mr Waddell said. The solid waste division had pushed through price increases of up to 15 per cent in the south of England without any reduction in volume.

## ● COMMENT

Mr Waddell's blunt warning on the regulatory risks surrounding the high margin hazardous waste business overshadowed a further problem - volumes are falling as well. While this may be offset by rationalisation and an improved performance from landfill and construction, the shares will almost certainly reflect the above difficulties. Forecasts are equally uncertain, ranging from £13.5m to £19m for this year. A prospective multiple of 12.5 on the most optimistic forecast might just attract high risk/high reward investors.

This offer notice is issued in compliance with the requirements of and has been approved by The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange") pursuant to Section 154(1)(a) of the Financial Services Act 1986. This offer notice does not contain full information about Old Mutual South Africa Trust plc and should therefore be read in conjunction with the Listing Particulars dated 22 June 1994 (the "Listing Particulars") which also contain full details of Old Mutual South Africa Trust plc and of the Ordinary Shares and Warrants available under the Offer for Subscription (the "Offer"). Application has been made to the London Stock Exchange for the undermentioned Ordinary Shares and Warrants to be admitted to the Official List. It is expected that listing will become effective and that separate dealings in the Ordinary Shares and Warrants will commence on Friday 8 July 1994.

# OLD MUTUAL SOUTH AFRICA TRUST PLC

(Incorporated in England and Wales under the Companies Act 1985 with registered number 2939312)

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Old Mutual South Africa Trust plc is a new investment trust which will aim to provide capital growth from investment in companies the majority of whose assets are located in, or the majority of whose profits are derived from, South Africa. 51,000,000 Ordinary Shares (with Warrants attached) have been placed and 19,000,000 Ordinary Shares (with Warrants attached) are being offered to the public under the Offer. The Offer has not been underwritten.

Copies of the Listing Particulars are available for collection during normal business hours (9.30am-5.30pm) on any weekday (excluding Saturdays) up to and including 8 July 1994 from any of the following:

Smith New Court Corporate Finance Limited  
Smith New Court House  
20 Farringdon Road  
London EC1M 3NH  
Bank of Scotland  
New Issues  
Apex House 38 Threadneedle Street  
9 Haddington Place London EC2P 2EH  
Edinburgh EH7 4AL

In addition, copies of the Listing Particulars can be obtained, by collection only, for two business days from and including 23 June 1994 from the Company Announcements Office, the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance off Bartholomew Lane, London EC2. Applications for Ordinary Shares (with Warrants attached) should be made by completing the attached application form and returning it by post or delivering it by hand to Bank of Scotland, New Issues, Apex House, 38 Haddington Place, Edinburgh EH7 4AL or by delivering it by hand or by courier only to Bank of Scotland, New Issues, 38 Threadneedle Street, London EC2 so as to be received by 12 noon on Friday 1 July 1994.

## Important Note

If the value of the Ordinary Shares (with Warrants attached) applied for exceeds £10,000, payment should be made by means of a cheque drawn by the person named in Box 3. If this is not practicable and you use a cheque drawn by a third party or a banker's draft, you should write the name, address and date of birth of the person named in Box 3 on the back of the cheque or banker's draft and: if a banker's draft is used, the bank must also endorse on the cheque or draft the name and account number of the person whose bank account is being debited; if a cheque is drawn by a third party, you must ensure that one of the following documents is enclosed with the cheque: a certified copy of your passport or driving licence or a recent original bank or building society statement or utility bill in your name. A copy passport or driving licence should be certified by a solicitor or bank. Original documents will be returned by post at your risk.

23 June 1994

## OLD MUTUAL SOUTH AFRICA TRUST PLC APPLICATION FORM

IMPORTANT: Before completing this form you should read the Listing Particulars relating to Old Mutual South Africa Trust plc. Boxes 1-4 must be completed and your remittance must be placed at Box 5. Applications must be for a minimum of 2,000 Ordinary Shares (with Warrants attached) and thereafter in multiples of 1,000 Ordinary Shares (with Warrants attached).

I/We offer to subscribe for	Ordinary Shares (with Warrants attached on a one for five basis) at 100p each or such lesser number of Ordinary Shares (with Warrants attached on a one for five basis) for which this application may be accepted	1
In Old Mutual South Africa Trust plc on the terms and subject to the conditions of application set out in the Listing Particulars dated 22 June 1994		
and I/we attach a cheque or banker's draft for the amount payable now, namely	£	2
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Address (in full)		
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Date	1994	Signature
4		
<input type="checkbox"/> Pin your cheque or banker's draft for the amount shown in Box 2 made payable to "Bank of Scotland A/C OMSA" and crossed "A/C payee only". You may send the completed Application Form by post to Bank of Scotland, New Issues, Apex House, 38 Haddington Place, Edinburgh EH7 4AL; alternatively, it may be delivered by hand only during normal business hours to Bank of Scotland, New Issues, 38 Threadneedle Street, London EC2, so as to be received in either case not later than 12 noon on Friday 1 July 1994.		
5		

Boxes 6 must be completed in the case of joint applicants only

Mr/Ms/Miss/Ms/Ms	6	Mr/Ms/Miss/Ms/Ms	6	Mr/Ms/Miss/Ms/Ms	6
Forename(s) (in full)		Forename(s) (in full)		Forename(s) (in full)	
Surname		Surname		Surname	
Address (in full)		Address (in full)		Address (in full)	
Postcode		Postcode		Postcode	
Signature		Signature		Signature	

By Caroline Southey

Allen, the construction and property development group, yesterday announced the acquisition of DJ Ryan & Sons, a cable laying, civil engineering and building contracting business, for about £6.8m, to be financed by the issue of 4.34m shares.

The Wigan-based group also reported a doubling of pre-tax profits, from £1.5m to £3.0m, on turnover up 23 per cent, from £51m to £62.7m, in the year to April 3.

The group ended a two-year dividend freeze, recommending an increased final of 8.6p for a total of 5.25p (5p). Earnings per share rose from 5.05p to 5.67p.

Gearing at the year-end was 16.7 per cent, against 38.8 per cent last time.

Mr Donald Greenhalgh, chairman, said that house completions, which had risen from 208 to 305 over the period, were expected to rise by some 25 to 30 per cent in the current year.

The acquisition issue will represent 14 per cent of the enlarged share capital. Some 2.55m shares are to be placed at 150p apiece. Of the balance of 1.79m shares, Ryan has agreed to retain 1.2m for one year.

Ryan, based in Preston, Lancashire, reported pre-tax profits of £1.02m on sales of £34.8m in the year to March 31. At that date its net asset value was £3.6m.

Mr Greenhalgh said the acquisition would allow Allen to expand into a related market in the north-west.

Ryan has fixed-term contracts with British Gas, with which it has a 26-year relationship, as well as North West Water and Severn Trent to lay, replace and repair gas and water pipes.

The company recently won its first contract to lay cables in the UK for Nynex, the east coast US telecommunications group.

After completion of the acquisition by Allen, Ryan's building contracting and housebuilding divisions will be sold.

## Redland floats Belgian arm

By David Blackwell

The Benelux brick interests of Redland, one of Britain's biggest building materials companies, have been floated on the Belgian bourse with a valuation of BFf8.2bn (£161m).

The flotation raised about BFf1.5bn, which will be used to pay off debt incurred in expanding the business. Redland said that its beneficial interest in the company, which has been renamed Terca Brick Industries, had been reduced to 35 per cent.

The Benelux interests were known as Redland Koramic Bricks, jointly owned by Redland and Koramic, a privately owned Belgian industrial group.

Last April Redland Koramic merged with the brick interests of Van Biersveld, also a privately owned Belgian group, reducing Redland's interest to 42 per cent.

Terca will have annual turnover of £135m and produce more than 1bn facing bricks a year from 25 sites in the Netherlands, Belgium, France and Germany.

## Standard Life diversifies into health insurance

By David Blackwell

Standard Life, the UK's largest mutual life insurer, is to diversify into health insurance with the purchase of Prime Health from Municipal Mutual, the local authority-owned insurance company, for an undisclosed amount, writes Allison Smith.

Prime Health policies cover some 250,000 people. Last year it had gross premium income of £54m making it the fifth largest health insurer in the UK.

The move is Standard Life's first venture outside life and pensions policies. Mr Scott

Ball, managing director, said the acquisition would allow the group to move quickly ahead in the rapidly growing health insurance market.

Standard Life will lose an important element of its UK distribution next year, when Halifax Building Society ends its agreement to sell Standard Life policies and sets up its own life subsidiary.

Prime Health is the latest in a series of subsidiaries to have been sold off by MBS which transferred most of its continuing local authority business to Zurich Insurance.

## EFT £2.56m placing

EFT plans to raise about £2.56m net via a placing and open offer of 5.45m new ordinary shares at 49p each.

The Glasgow-based asset finance group also said that its principal bankers had agreed to increase available borrowing facilities to £56.8m - up £13.5m from the facilities available at December 31 1993.

The new shares are being

conditionally placed with institutions, subject to a clawback to qualifying shareholders on a 1-for-8 basis.

EFT said that revenues for the first five months of the current financial year were more than 15 per cent ahead. The directors forecast the interim dividend would be 0.525p and the final 1.225p, making a total of 1.75p (1.5p).

## Emap bids for Trans World

By David Wighton

Emap yesterday launched its expected 181p a share hostile bid for Trans World Communications, the local radio group where it owns or has agreed to buy 51.7 per cent of the shares.

The bid, which values Trans World at £70.8m, follows the agreement by Mr Owen Oyston to sell his 22 per cent stake to Emap at the offer price.

Mr Robin Miller, Emap's chief executive, said the final cash offer represented a "generous" price for Trans World. It is pitched at 58 times last

year's earnings and 5.3 times turnover, both higher than any previous deal in the sector.

However, earlier this week the Trans World board declined to recommend such an offer, arguing that the price was too low and that the bid could face legal problems.

This is because a full takeover would breach the legal limit on the number and size of commercial radio licences that can be held by one company.

However, Emap plans to sell two of its licences to a joint venture with merchant bank Schroders, which the Radio Authority has said would com-

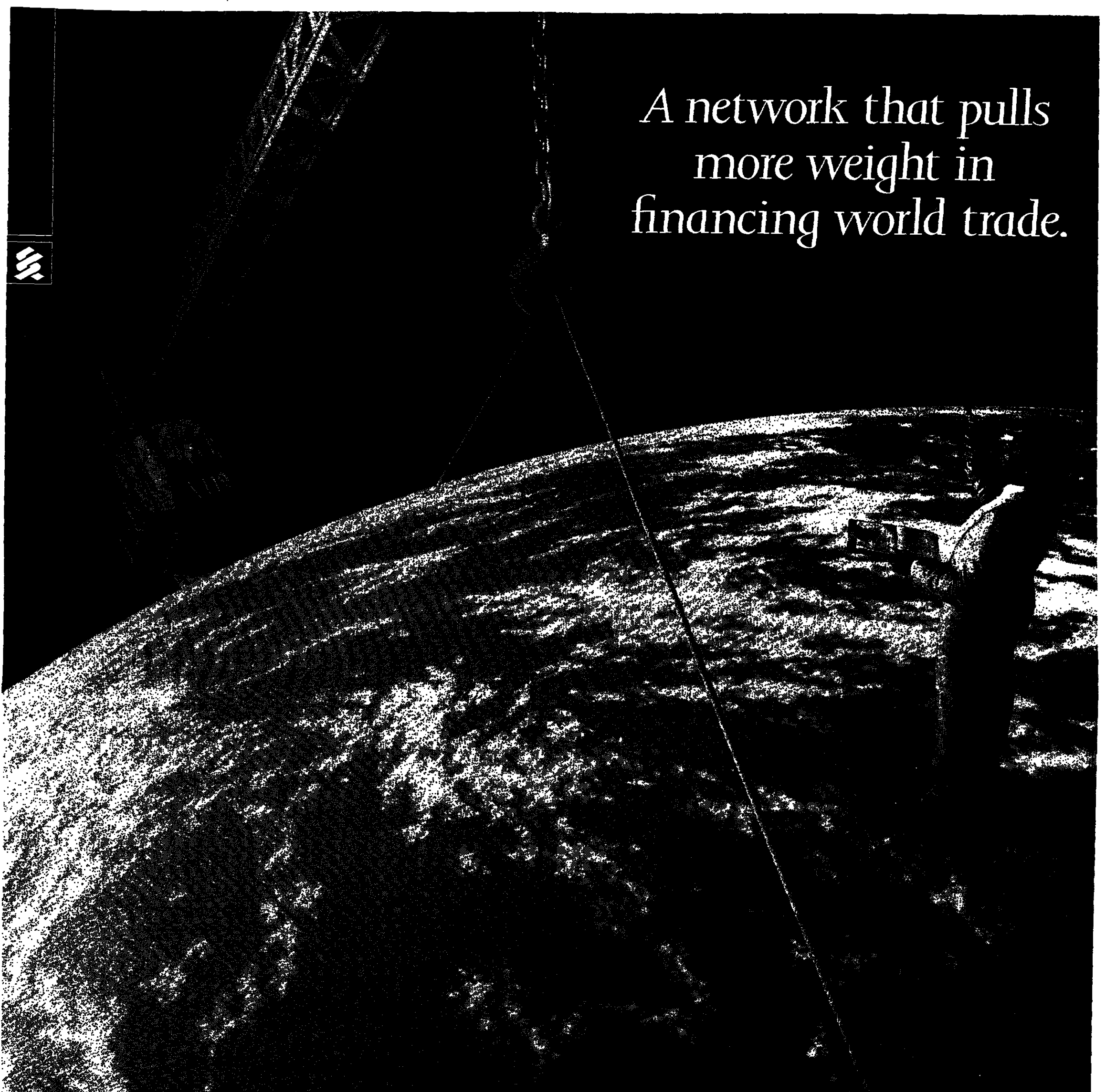
ply with relevant legislation. The authority has recommended its position following an announcement by the Guardian Media Group, which owns 30 per cent of Trans World, that it intends to ask for a judicial review of the decision.

Mr Miller said: "We have no idea whether they will get leave to proceed or what the timetable would be, but meanwhile the offer goes ahead."

Emap said the acquisition would enhance its earnings per share in the first full financial year of ownership.

Trans World shares added 2p to 175p.





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INTERNATIONAL NETWORKING 

## COMPANY NEWS: UK AND IRELAND

## Wagon slips less than expected to £15.6m

By Paul Cheswright,  
Midlands Correspondent

Pre-tax profits at Wagon Industrial Holdings last year declined less than the materials handling, engineering and automotive products group had predicted as productivity rose and trading conditions improved in the UK and continental Europe.

In the 12 months to March 31, pre-tax profits were £15.6m, against £18.1m. The group last June warned that its results would be similar to those of the previous year before meeting restructuring costs of £3m at Forkhardt, its German power chuck subsidiary.

Although earnings per share dipped from 29p to 19.58p, the dividend is slightly increased and only just covered; the final is 11.5p, making a total of 17.25p (17.30p).

Wagon would like to have the dividend twice covered by the end of the next financial

year. That implies an increase in profits over two years of 33 per cent.

There has been a strong start to this year, reported Mr John Hudson, chief executive. Trading conditions started to improve last year. "The important thing was an acceleration of the improvement towards the end of the year, which is exactly the opposite of the previous year," he said.

Turnover was £279.5m, of which £9.7m came from acquisitions, against £247.6m. But operating profits, largely because of Forkhardt, fell from £16.5m to £14.7m.

In the automotive division, where recently Wagon has been concentrating its expansion, operating profits fell while turnover increased. This reflected a tailing-off of profits in France. But, said Mr Hudson, "we see the automotive division being our strongest division this year".

## COMMENT

Wagon rode the UK recession with aplomb. Everything it might have done it did: kept cash in the bank, reorganised management, raised productivity, made acquisitions to build up market position. It was Europe which made it look more ordinary: takeover of Polypal in Belgium only to see the markets tumble, capacity at Forkhardt far too high for reduced demand. Last year it grasped the European nettle. Manufacturing sites for materials handling equipment have been concentrated and Forkhardt is back in profit, albeit small. With its European markets starting to bounce back and demand in the UK rising, recovery should be swift enough to justify the company broker's prediction of £22m pre-tax and earnings per share of 30.8p for the current year. On a price, up 5p yesterday, of 429p, that would put the shares on a modest prospective multiple of 15.5.

## MEPC to buy Belfast shopping centre

By Vanessa Houlder,  
Property Correspondent

MEPC, the UK's second largest property company, has agreed to buy the Castlecourt shopping centre in Belfast from John Laing, the construction and housebuilding group, for initial and deferred payments expected to exceed £80.5m.

The deal is in line with MEPC's strategy of increasing the retail component of its portfolio. John Laing is selling the property because it does not wish to be a long-term holder of developed investment properties.

John Laing intends to use the proceeds from the disposal to expand existing activities, particularly projects in the Pacific Rim, and in private infrastructure in the UK.

MEPC has agreed to pay an initial sum of not less than £72.5m next month, and a further minimum amount of £1.65m next February. There will be additional payments up to 1998, based on the capitalised value of rents achieved on further lettings and the outcome of rent reviews. The deal is subject to shareholders' approval.

The 320,000 sq ft shopping centre opened in April 1990. Rental income in 1993 was £5.2m. It has been valued on an open market basis at £80.5m.

The net book value of Castlecourt at the end of last year was £60m. The disposal will generate an extra £7.1m of pre-tax profits for Laing's full year and will realise net cash of £30m, after the deduction of costs and repayment of £40m of bank borrowings.

Laing has also agreed to sell Churchgate in Peterborough for £2.5m, payable on completion and a minimum further consideration of £2.5m, payable within five years.

Laing said trading conditions remained difficult in its UK construction activities and margins remained under pressure. However, work intake compared favourably with this time last year.

## Company will realise £52m net profit from sale of entire holding

## Royal Bank explains 3i decision

By John Gapper,  
Banking Editor

Mr George Mathewson, Royal Bank of Scotland's chief executive, yesterday explained the bank's decision to dispose of all its 7.3 per cent stake in 3i, the investment trust company which was floated yesterday by the highest bidder.

Royal Bank, one of seven banks which owned 3i jointly with the Bank of England before the offer of £711m of its equity yesterday, was the only bank to dispose of its entire stake. In contrast, Bank of Scotland did not sell any of its existing stake.

National Westminster Bank will retain the highest stake of the banks, with its stake falling to 17.94 per cent compared with the previous 22.9 per cent. All the stakes were diluted by a £288m rights issue element of the flotation.

Sir George Russell, 3i chairman, said that NatWest wanted to be a "major and long-term shareholder, which we certainly welcome". The bank said that it viewed 3i as a good company which it wanted to retain as a long-term investment.



Sir George Russell: NatWest wanted to be long-term shareholder

Mr Mathewson said that Royal Bank had sold its stake in a placement because the rights dilution of its stake would have prevented it from continuing to equity account

the holding, and so include rises in 3i's net assets in profit.

He said that after deducting the already accounted rises in 3i's net assets, Royal Bank

would be left with a net profit of £52m from its sale. This would be taken as an exceptional item in the second half of its financial year.

Mr Mathewson said that Royal Bank had decided to sell its stake immediately rather than "leak it out in little bits", because although 3i was a good company, "we are not in the business of outguessing the equity market".

He emphasised that the raising of extra capital had no strategic implications for the bank, which indicated its interest in buying a building society. "This has no broader tactical implications whatsoever," he said.

The banks have agreed not to sell any further part of their remaining stakes within a year without the agreement of Barings Brothers, the merchant bank sponsoring the issue. Any bank selling more equity will consult the others first.

Mr Hugh Young, general manager of Bank of Scotland, said the bank's stake had fallen to 2.47 per cent from 3.02 per cent because of dilution. It had never equitably accounted its stake, taking only 3i dividends into profits.

## Aer Lingus lays off 850 staff as dispute continues

By Tim Coone in Dublin

Team Aer Lingus, the aircraft maintenance division of Aer Lingus, the Irish state airline, yesterday laid off more than 40 per cent of its workforce, amounting to 850 of its 2,000 employees, as trade unions warned that the dispute over pay and staffing cuts could spread through the whole airline.

The division has been losing £1m (£980,000) a month and currently has no heavy maintenance contracts as airlines have transferred business elsewhere over concerns that the simmering dispute would leave their aircraft stranded in Aer Lingus maintenance hangars.

Earlier this week craft unions rejected a rescue package for the subsidiary recommended by the Labour Relations Court, arguing that their own proposals to return the company to commercial viability had not been considered by the management or the LRC.

The LRC recommended a pay freeze until July 1994, rather than pay cuts sought by the management.

Backbenchers of the Labour party, which forms part of the coalition government, yesterday criticised Aer Lingus for its handling of the dispute. The government, however, has backed the management and recommended acceptance of the LRC proposals. Senior politicians are to question Aer Lingus today on the dispute in a special Dail sub-committee hearing convened at the request of the unions.

Mr Dennis Smith, chief negotiator for the craft unions, said that strike action was not planned for the time being, but Siptu, one of the trade unions involved in the dispute, said yesterday that if non-union labour was taken on while staff were laid off "there certainly will be a reaction".

The government and Aer Lingus are meanwhile facing pressure from another direction. Aeroflot, the Russian airline, is to begin non-stop flights from Russia to the US this summer as new long-range aircraft come into service, bypassing the refuelling stop at Shannon in the west of Ireland.

It has offered to continue the Shannon stopover if passengers from other CIS airlines can transfer to Aeroflot there. But the government and Aer Lingus are opposed to this as it is seen as a threat to Aer Lingus' transatlantic business.

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## Sapphire option for Butte Mining

Butte Mining, the London-

quoted company, has acquired an option on certain sapphire mining rights and interests in Montana and will explore a 500-acre property there in exchange for a significant minority interest in a new company, International Gem Corporation, being set up to exploit the prospect.

If full-scale production is merited, up to \$2m (£1.2m) of equity funding will be needed and Butte shareholders will have the right to subscribe for shares in International Gem.

## Hardys &amp; Hansons rises by 10% to £3.66m

By Graham Deller

Hardys & Hansons, the Nottingham-based independent brewer, yesterday reported a 10 per cent increase in interim profits.

On turnover marginally ahead to £15.6m, trading profits advanced to £3.35m (£2.94m); after reduced net interest receivable of £292,000 (£305,000) the pre-tax line for the half year to April 1 amounted to £3.66m, up from £3.32m last time.

Mr Richard Hanson, chairman and managing director, attributed the "very satisfactory" improvement to the contribution from new or recently modernised houses.

The outcome was also aided, he added, by an early Easter with sales in the run-up to the holiday falling in the first half.

The interim dividend is raised 13 per cent from 3p to 3.4p, payable from earnings of 9.87p per share, compared with 8.97p.

## Amber achieves 35% rise

Helped by a profit of £717,000

on the sale of operations, Amber Industrial Holdings, the specialty chemicals company in which Cayer Trust holds a 75 per cent stake, achieved a 35 per cent pre-tax advance from £2,07m to £2,814m in the year to end-March.

Turnover grew from £21m to £22.1m and earnings per share emerged at 67p (43.7p). An improved final dividend of 14p is proposed, raising the total to 20p (18.5p).

Directors said that cash balances had improved from £3.2m to £5.1m, reflecting in part the disposal of the Causeway Steel Products business.

Since the year-end Amber has acquired two small businesses - Proplastics and Newbury Aerosols - and further purchases are under consideration.

Capita to pay £10m for software supplier

Capita Group, a supplier of professional support services and owner of the UK's second largest bailiff services com-

pany, is to pay up to £10m for Sims Holdings, which specialises in software for educational institutions.

Up to £5m is payable on completion and a further £5m is payable under an earn-out.

There will be a placing of 2.6m new ordinary 2p shares at 170p apiece to raise £42m.

BOC makes R88m South Africa deal

BOC Group's African Oxygen subsidiary is to acquire the cylinder portion of Engen's liquefied petroleum gas business in South Africa, Botswana, Lesotho, Swaziland and Namibia.

The R88m (£15.8m) consideration is to be satisfied in cash.

Strong asset growth at Dartmoor Inv

Dartmoor Investment Trust reported a net asset value of 115.45p at April 30, a rise of more than 49 per cent on the comparable figure of 79.33p.

The trust, which invests mainly in split capital funds and is managed by Exeter Asset Management, easily outperformed its benchmark, the FT-SE-A All-Share Index, which rose just 13.5 per cent during the same period. Attributable profit for the 12

months to end-April dipped to £2.78m (£2.84m), for earnings of 11.57p (12.09p) per share. Nevertheless, the total distribution for the year is maintained at 11.5p via a same-again final dividend of 3.9p.

Lucas in joint venture in China

Lucas Aerospace, part of Lucas Industries, has signed a joint venture agreement with Tachoo Aircraft Engineering Company of Xiamen, China.

The venture is to establish a repair and overhaul facility for engine and flight control systems, electrical power generation and other aerospace equipment. It will be 65 per cent owned by Lucas and 35 per cent by TACHCO and total investment will be more than \$10m (£5.5m).

Exceptionals push LPA to £88,000 loss

Exceptional losses on the disposal of its Acrokol drinking water fountain subsidiary pushed LPA Industries, the electrical accessory group, to a pre-tax loss of £98,000 for the half year to end-March against a profit of £18,000.

The £142,000 exceptional included a £39,000 loss on disposal and a £103,000 write off of

goodwill. Turnover was £2.6m (£2.85m).

Earnings per share from continuing operations came out at 0.45p (0.31p) and there is a reduced interim dividend of 0.3p (0.65p).

Second Consolidated asset value ahead

Second Consolidated Trust had a net asset value per share of 111.2p at April 30, against 108.5p a year earlier and 108.2p at the October 31 year-end. Both comparatives have been adjusted for capital repayment.

Net attributable revenue rose sharply to £1.12m (£233,000 for five months) equivalent to earnings of 3.22p (0.68p) per share.

The trust was incorporated in October 1993 and a final dividend of 2.1p was paid last year. A maiden interim of 1.5p is declared.

Finsbury Avenue debenture stock

Finsbury Avenue Estates said that FCS Currency Management had bought £17.4m of its 11 per cent first mortgage debenture stock 2014.

The two companies are subsidiaries of British Land. The stock is not being cancelled and, accordingly, £40m remains outstanding, of which £17.4m is held by FCS.

Old Mutual South Africa raises £51m

Old Mutual, South Africa's largest life insurer and mutual fund manager, announced that 51m ordinary shares in Old Mutual South Africa Trust had been successfully placed with institutions, stockbrokers and intermediaries by Smith New Court at 100p.

Old Mutual South Africa Trust is the UK's first South African investment trust. It

## King &amp; Shaxson declines 17% to £2.6m

An initial £2.48m from Greig Middleton Holdings, the recently-acquired stockbroker firm, contributed the bulk of pre-tax profits of £2.9m at King & Shaxson Holdings for the year ended April 30.

The result, however, was 17 per cent lower than the previous year's restated £3.18m.

After-tax profits of the financial services group slipped 10 per cent to £1.7m, and earnings per share came to 9.8p (11p). A recommended final dividend of 5p makes an unchanged total of 9p.

Mr David Pearce, chairman, said the discount house had an unsatisfactory year with operating losses of £113,000 against an "exceptional" profit of £2.53m. Profits from money broking dropped from £371,000 to £281,000 while there was a £152,000 loss from futures management.

## Leigh Interests makes £4m purchase

Leigh Interests, the environmental services company, is buying Bride (Church Lawford) for £4m, satisfied by the issue of 2.03m shares. The shares have been conditionally placed at 197p.

Capital Industries makes £2.9m buy

Capital Industries, the financial services and packaging materials group, has acquired a 4.2 acre freehold industrial site at Maidstone, Kent, for £2.9m cash. It will enable its finishing and label operations to be integrated on one site.

The consideration will be funded partly by a new term loan facility and partly from Capital's banking facilities.

Loss on disposal hits West Trust

West Trust, the specialist food manufacturing and distribution group, ran up a pre-tax loss of £1.42m in the year ended March 31, after making a £2.12m charge for the disposal of Ken Moore, its former Lycra making subsidiary. The loss compared with a £129,000 profit previously.

Losses per share were 5.3p (0.3p earnings), but this came out at earnings of 2.34p before the Ken Moore loss. The final dividend is 2.3p for an unchanged total of 2.5p.

Turnover increased from £8.84m to £13.21m.

## DIVIDENDS ANNOUNCED

	Current Payment	Date of Payment	Corresponding dividend	Total for year	Total last year
Allen	3.6	July 29	3.35	5.25	5
Amber Industrial	14	Aug 8	13	20	18.5
BT	6.55	Aug 19	6.05	10	8.3
Carpentright	4.3	Aug 19	3.9	8.2	7
Dartmoor Inv Trst	3.9	July 29	3.9	11.6	11.6
ERF	2	Aug 17	2	2	2
First Leisure	2.12	Oct 31	2	2	6.53
Hardys & Hansons	3.4	Aug 8	3	8.5	8.5
King & Shaxson	5	July 29	5	9	9
Second Consul	1.5	Aug 4	1.5	2.11	2.11
Shenks & McEwen	1	Aug 15	3.44	3.24	3.24
Smith St Aubyn	11	Oct 3	3.7037	6.25	6.2933
Wagon Ind	11.57	Oct 3	11.775	17.825	17.308
West Trust	2.3	Nov 1	2.5	2.5	2.5

Dividends shown pence per share net except where otherwise stated. 70p increased capital. \$USM stock. 70p for 11 months.

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## COMMODITIES AND AGRICULTURE

## Buyers come to copper's rescue after early fall

By Kenneth Gooding, Mining Correspondent

The copper market burst into life again late yesterday after pausing for breath earlier this week. However, analysts warned that the copper price - and prices of other London Metal Exchange-traded metals - might be heading for a fall in the third quarter.

Copper for delivery in three months, which at one point yesterday dropped to \$2,417 a tonne, closed on the London Metal Exchange at \$2,451.50, up \$18.25 a tonne from Tuesday's close.

Traders said that some Japanese buying stopped copper's price fall and later the Chinese also came in with "buy" orders.

Mr Nick Moore, analyst at Oriel Minerals, said the market was still unsure whether there would be the usual summer lull in business. He added: "I suspect that there will be a lull and the onset of the third-quarter seasonal demand weakness will indeed witness lower metal prices in the coming quarter. These lower prices will, however, offer a prelude to a fresh acceleration (in copper's price) in the final quarter."

At GNI, analyst Mr Lawrence Eagles suggested that, if copper should begin to fall back, other metals would follow. The sell-off was likely to be most aggressive for those metals, such as zinc, which had the worst over-supply problems.

Mr Ted Arnold, metals specialist at Merrill Lynch, remained more bullish. Although he accepted that the copper market might be very volatile in coming weeks and he would not be surprised to see daily trading ranges of 3 to 5 cents a pound, he forecast that three-month copper would trade over the next two to three months between \$2,250 and \$2,550 a tonne (\$1.02 to \$1.16 a pound).

## Italy to import more Algerian gas

By Robert Graham in Rome

Italy has signed a new gas deal with Algeria, committing Eni, the gas supply subsidiary of ENI, the Italian state oil concern, to buy 200 cubic metres of liquefied natural gas a year from 1996 from Sonatrach, the Algerian state oil company.

Algeria already accounts for about 40 per cent of Italy's gas supplies. The latest contract will bring to 200 cu m in the annual imports as of 1996, when the second leg of the Tunis-Sicily Trans-Mediterranean pipeline becomes operational. Coming at a time of increasing political uncertainty in Algeria, the contract is seen as evidence of Italy's strategic choice of this North African supplier.

The LNGs will be transported from Skikda in Algeria to Penicheira near La Spezia. By 1996 21.5m cu m of gas a year will be contracted through Sonatrach while an additional 4m cu m is being bought directly by Eni, the Italian state electricity authority, but transported by Sonatrach.

## US official attacks Canadian wheat marketing

By Laurie Morse in Chicago

A top-ranking official of the US Department of Agriculture took aim at Canada's entire wheat marketing system in a speech made in Fargo, North Dakota on Tuesday, calling the Canadian Wheat Board's operations "monopolistic" and incompatible with the free trade climate in North America.

The comments, made by Mr Eugene Moos, Undersecretary for International Affairs and Commodity Programmes at the

US Department of Agriculture, may indicate that the US will push for an overhaul of Canada's entire grain marketing system, rather than just a short-term fix to a cross-border grain trade dispute, with US agriculture secretary Mr Mike Espy and top trade negotiator Mr Mickey Kantor meet with their Canadian counterparts in Chicago on Monday.

The Clinton administration, under pressure from congressmen from farm states bordering Canada, is threatening to impose emergency quotas on

wheat imports from Canada, and Canada has promised to retaliate. The US claims Canada is unfairly marketing into US wheat-producing regions, although US flour millers and pasta processors contend that short supplies of high-quality US wheat have forced them to buy from Canada.

Mr Moos went beyond the domestic trade issues in his remarks on Tuesday, saying: "The predatory practices of the Canadian Wheat Board must end."

Although Canada does not

directly subsidise grain exports in the way that the US and the European Union do, Mr Moos said the Wheat Board's pricing policies allowed it to undercut subsidising competitors.

He said he had asked to be allowed use the US grain export subsidy program, known as EEP, against competitors other than the EU, warning: "We in the USDA intend to use all of the tools at our disposal to encourage our competitors to trade fairly."

Although national grain

marketing boards like those in Canada and Australia were not addressed in the recently concluded Uruguay round of the General Agreement on Tariffs and Trade, they have recently become the focus of unfair trade practice complaints. Mr Winston Wilson, president of the largest US wheat export trade group, said: "I think it boils down to the fact we are now involved with two free trade agreements with Canada, and we have two different systems of grain marketing that are not very competitive."

## India clears way for private forestry boost

Kunal Bose on moves to allow wood-based industries to join in the replanting effort

India, which is far from achieving its target of bringing at least one-third of the total land area under trees cover has finally seen the merit of allowing the wood-based industries to start forestry plantation in degraded forest land.

Captive plantation by industries calls, however, for major amendments to the national forest policy of 1988.

Mr Kamal Nath, minister of environment and forests, had given manufacturers of paper, plywood and viscose fibre to understand that the government will allow them to take large tracts of degraded forest on leases of at least 50 years to grow an ideal mix of long and

short maturing trees. The leases will also have the right to grow cash crops in among the trees.

Of India's total waste land of nearly 160m hectares, the share of degraded forest is about 40m ha with a crown density of less than 20 per cent. The National Wetlands Development Board was given a target to bring 5m hectares under tree plantation every year. But the resources at its command have not allowed the board to plant on more than 2m hectares a year.

According to Mr SP Goenka, president of the Federation of Indian Plywood Industries, the induction of the private sector into forestry plantation would

not only "ease the pressure on the government, which is short of funds, but it would also create millions of job opportunities in the Indian villages."

The forestry plantation industry, a totally new concept in India, will create jobs for three workers a hectare. So the policy initiative would appear to have the potential to create 12m jobs.

As the forest cover in India is barely 12 per cent and forestry productivity is only one-fifth that of Europe, the government has imposed severe restrictions on the procurement of wood and bamboo by industries. It is, however, the demand for fuel wood by the poor villagers and illegal felling

of trees to make room for food production that have actually played havoc with Indian forests.

The government has sought to give relief to the wood-based industries by allowing them to import timber, pulp and waste paper. Some paper and plywood manufacturers have gone in for social and farm forestry by establishing direct contact with the farmers, as allowed by the 1988 forest policy. According to the Indian Paper Mills Association, "the social and farm forestry cannot be a dependable source of raw material for the industry since the farmers are free to sell the trees to anybody."

Mr Goenka says the success of private sector participation in forestry plantation will call for an "attitudinal change of the official agencies at the federal and state level. The government financial institutions should be ready to provide adequate funds by accepting mortgage of trees."

Tree plantation has a seven year cycle. If the private forestry plantation work is flagged off soon, then the Indian wood-based industries, which have not seen much growth in recent years, will have the confidence to plan for new capacity. India could also emerge as an important exporter of wood and wood based products within ten years, says Mr Goenka.

## UK boffins breed a better lupin

By Deborah Hargreaves

Lupins, the early summer stalwarts of most British gardens, could soon proliferate over much of the country's farmland, and contribute to reducing the trade deficit.

Government research has developed a new strain of white lupin that is suitable for growing in Britain on a commercial basis and can be made into animal feed. The white flowers could be grown by farmers for sale to cattle feed-makers in two to three years.

The new variety grows seed pods that are rich in protein - unlike the poisonous seeds of their country garden counterparts. The seeds, which contain almost 40 to 50 per cent edible protein and 10 to 12 per

cent oil, can be crushed to make animal feedstuff. Much of Britain's animal feed is now made from soybeans, which are imported from the US at an annual cost of around \$350m. Some 30,000 tonnes of lupins are imported from Australia as an additive to livestock feeds.

Research at Cranfield University has shown that the new strain of lupin would be suitable for growing on 43 per cent of farmland in England and Wales. "In the past we had a go at growing the old varieties of lupin, but they couldn't stand the cold and frost," says Mr John Hollis at the university's Soil Survey and Land Research Centre.

The new hardier variety can be planted in September to pro-

duce a flower the following summer. The plants have also been genetically manipulated so that the flowers grow closer to the top of the stem and are exposed to the maximum amount of sunlight, with the result that they ripen more quickly.

The plants are partial to acid, or poorer soils, but will not grow on lime-rich soil. "Providing you don't have a natural limey soil and you hit the crop planting window right at the beginning of September, you can expect yields of 4 to 5 tonnes an acre," says Mr Hollis.

Lupins are grown commercially in Australia and parts of South America. In Chile the seeds are fried up and eaten as a snack.

## Computer model could cut nitrogen applications

By Deborah Hargreaves

Predictions of the nitrogen needs of crops on different fields at varying times of year can be made available to farmers on a computer model developed by Horticulture Research International, the company said this week.

It claimed the computer programme would enable farmers to target their nitrogen applications more accurately so that

crops grew well. It should help eliminate the environmental damage and waste of money associated with using too much nitrogen fertilizer.

The company said the computer model, which had been tested over 3,000 hectares, offered nitrogen predictions for a wide range of crops. The model comes as farmers face mounting pressure from environmentalists about cutting their use of nitrogen fertilisers.

MARKET REPORT  
Coffee and cocoa prices fall sharply

COFFEE futures fell sharply at the London Commodity Exchange yesterday afternoon, emulating a drop in New York.

The September delivery position finished \$56 lower at \$2,278 a tonne, slightly off the lows, mainly on profit-taking, with little news to drive the market one way or the other.

"I don't think anyone has a genuine idea of where the price is going," one trader commented.

The LCE COCOA market, which was also influenced by the trend in New York, had a lacklustre day, nudging below the opening lows and finishing \$15 down at \$1,000 a tonne, its low of the day, in the September position.

A trader said the producer selling seemed to be largely "on hold", with much of the activity dominated by speculators following general commodity market trends.

At the London Bullion Market GOLD finished unchanged after fixing at a 54-month high in the morning in response to New York's overnight rise. But the US market weakened yesterday as the dollar put in a stronger performance.

Dealers said gold was still tied to currency markets but had shaken off its allegiance to moves in the Commodity Research Bureau Index. Compiled from Reuters

## COMMODITIES PRICES

## BASE METALS

## LONDON METAL EXCHANGE

(Prices from Antwerp and London)

## ALUMINIUM, 99.7 PURITY (\$ per tonne)

	Unit	Price
Close	1444	1471.0
Previous	1444.5-5.5	1474.5-5
High/Low	1433	1479/1482
AM Official	1433-5.5	1484/1485
Kerb close	1433-5.5	1473-3.5
Open int.	271,782	
Total daily turnover	48,404	

## ALUMINIUM ALLOY (\$ per tonne)

	Unit	Price
Close	1440-50	1459-80
Previous	1450-80	1465-70
High/Low	1440-50	1460/1455
AM Official	1435-45	1450-5
Kerb close	1435-45	1455-0
Open int.	2,930	
Total daily turnover	748	

## LEAD (\$ per tonne)

	Unit	Price
Close	538-0	556-7
Previous	540-1	559-8.5
High/Low	530-5-1	547-7.5
AM Official	530-5-1	555-8
Kerb close	537-48	555-8
Open int.	6,393	
Total daily turnover	6,393	

## NICKEL (\$ per tonne)

	Unit	Price
Close	6990-400	6940-90
Previous	6940-10	6940-90
High/Low	6870/6885	6915/6845
AM Official	6870-70	6940-90
Kerb close	6870-70	6940-90
Open int.	58,252	
Total daily turnover	10,497	

## ZINC (\$ per tonne)

	Unit	Price
Close	6570-40	6540-90
Previous	6570-30	6555-80
High/Low	6575	6550/6515
AM Official	6558-42	6550/6515
Kerb close	6558-42	6550-40
Open int.	16,313	
Total daily turnover	4,195	

## ZINC, special high grade (\$ per tonne)

	Unit	Price
Close	994-5	1009-5-10
Previous	999-5-10	1015-5-10
High/Low	997-4	1010-3-5
AM Official	997-4	1010-3-5
Kerb close	997-4	1010-3-5
Open int.	108,195	
Total daily turnover	20,742	

## COPPER, grade A (\$ per tonne)

	Unit	Price
Close	2438-7	2451-2
Previous	2419-20	2435-3-5
High/Low	2419-20	2435-3-5
AM Official	2403-5-4.5	2442-1
Kerb close	2403-5-4.5	2442-1
Open int.	281,456	
Total daily turnover	61,880	

## LME AM Official CDS rate, 1.5882

	Unit	Price
Close	1.5882	1.5882
Previous	1.5882	1.5882
High/Low	1.5882	1.5882
AM Official	1.5882	1.5882
Kerb close	1.5882	1.5882
Open int.	1.5882	1.5882
Total daily turnover	1.5882	1.5882

## SPECIAL 1.5815 3 mths, 1.5895 6 mths, 1.577 9 mths, 1.557

## HIGH GRADE COPPER (COMEX)

	Unit	Price
Close	112.85	112.85
Previous	112.85	112.85
High/Low	112.85	112.85
AM Official	112.85	112.85
Kerb close	112.85	112.85
Open int.	112.85	112.85
Total daily turnover	112.85	112.85

## PRECIOUS METALS

## LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

## GOLD (Troy oz.)

	Unit	Price
Close	360.55-360.80	360.55-360.80
Previous	360.55-360.80	360.55-360.80
High/Low	360.55-360.80	360.55-360.80
AM Official	360.55-360.80	360.55-360.80
Kerb close	360.55-360.80	360.55-360.80
Open int.	360.55-360.80	360.55-360.80
Total daily turnover	360.55-360.80	360.55-360.80

## SILVER (Troy oz.)

	Unit	Price
Close	382.50-383.20	382.50-383.20
Previous	382.50-383.20	382.50-383.20
High/Low	382.50-383.20	382.50-383.20
AM Official	382.50-383.20	382.50-383.20
Kerb close	382.50-383.20	382.50-383.20
Open int.	382.50-383.20	382.50-383.20
Total daily turnover	382.50-383.20	382.50-383.20

## PLATINUM (Troy oz.)

	Unit	Price
Close	580.00-581.00	580.00-581.00
Previous	580.00-581.00	580.00-581.00
High/Low	580.00-581.00	580.00-581.00
AM Official	580.00-581.00	580.00-581.00
Kerb close	580.00-581.00	580.00-581.00
Open int.	580.00-581.00	580.00-581.00
Total daily turnover	580.00-581.00	580.00-581.00

## PALLADIUM (Troy oz.)

	Unit	Price
Close	410.00-411.00	410.00-411.00
Previous	410.00-411.00	410.00-411.00
High/Low	410.00-411.00	410.00-411.00
AM Official	410.00-411.00	410.00-411.00
Kerb close	410.00-411.00	410.00-411.00
Open int.	410.00-411.00	410.00-411.00
Total daily turnover	410.00-411.00	410.00-411.00

## RUHBER (Troy oz.)

	Unit	Price
Close	1.12-1.13	1.12-1.13
Previous	1.12-1.13	1.12-1.13
High/Low	1.12-1.13	1.12-1.13
AM Official	1.12-1.13	1.12-1.13
Kerb close	1.12-1.13	1.12-1.13
Open int.	1.12-1.13	1.12-1.13
Total daily turnover	1.12-1.13	1.12-1.13

## NATURAL GAS (1000 cu ft)

	Unit	Price
Close	1.12-1.13	1.12-1.13
Previous	1.12-1.13	1.12-1.13
High/Low	1.12-1.13	1.12-1.13
AM Official	1.12-1.13	1.12-1.13
Kerb close	1.12-1.13	1.12-1.13
Open int.	1.12-1.13	1.12-1.13
Total daily turnover	1.12-1.13	1.12-1.13

## PRECIOUS METALS continued

## GOLD COMEX (100 Troy oz; \$/troy oz.)

	Unit	Price
Close	360.55-360.80	360.55-360.80
Previous	360.55-360.80	360.55-360.80
High/Low	360.55-360.80	360.55-360.80
AM Official	360.55-360.80	360.55-360.80
Kerb close	360.55-360.80	360.55-360.80
Open int.	360.55-360.80	360.55-360.80
Total daily turnover	360.55-360.80	360.55-360.80

## PLATINUM NYMEX (50 Troy oz; \$/troy oz.)

	Unit	Price
Close	410.00-411.00	410.00-411.00
Previous	410.00-411.00	410.00-411.00
High/Low	410.00-411.00	410.00-411.00
AM Official	410.00-411.00	410.00-411.00
Kerb close	410.00-411.00	410.00-411.00
Open int.	410.00-411.00	410.00-411.00
Total daily turnover	410.00-411.00	







**INVESTMENT TRUSTS - Cont**[illegible]



**TRANSPORT - Cont.**[illegible]

	Notes	Price
Anglo Am Ind.		£227½
Barlows		£47½
GL Props R.		308
Mid. Freight		66
SASOL		344
SA Brews		£122.50
Tiger Cats	↑	£75½
Tongaat-Huht		750

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South Korea is striving to overcome its legacy of isolationism and to push for economic liberalisation. But it is a hard struggle, writes **John Burton**

The clearest example of this can be seen in North Korea, which has adopted *juche* (self-reliance) as its guiding principle. But the Korean peninsula's tragic history has also produced considerable psychological resistance in South Korea to accepting the full rig-

Labour disputes, which have disrupted industrial production in the past several years, are on the wane as living standards rapidly improve. Wage negotiations are being settled at an unprecedented rate this year, although troubles may

Korea is also overhauling its antiquated and tightly regulated financial system that has created distortions in economic development, particularly at



Foreign competition in the home market will help to improve the performance of the large conglomerates, or chaebols, as they increase their

tion that he enjoyed on political reforms. Public attention has focused on the immediate disruptive impact of the changes.

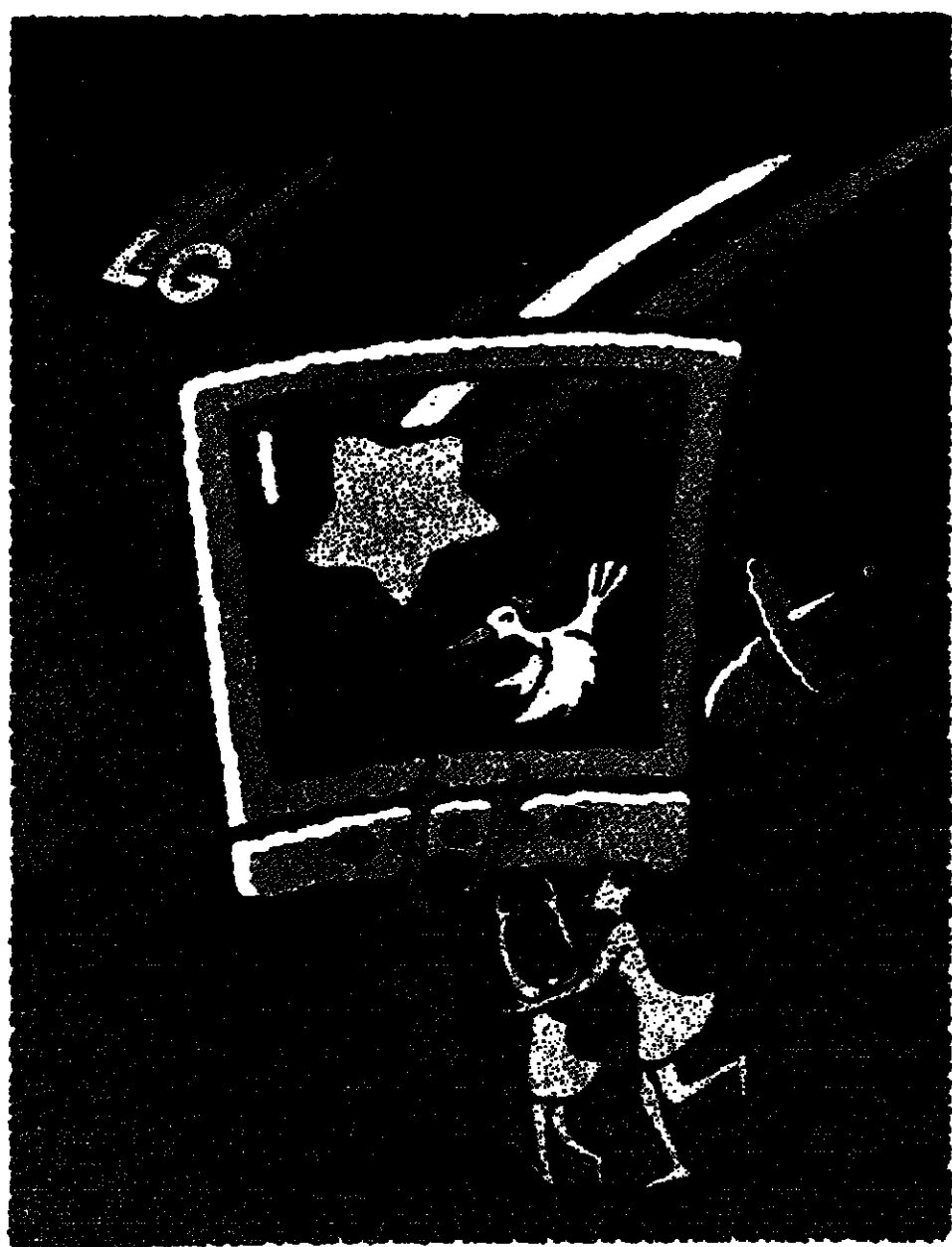
Public opposition, encouraged by bureaucrats afraid of losing power, remains a potential obstacle to the successful introduction of the reforms.

economic collapse of North Korea, caused by stiff international sanctions, might also force the government to scale back the reforms as it concen-

the US, on the Korean peninsula. That is likely to increase public scepticism about the government's calls for internationalisation.

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## KOREA 2

Louise Lucas looks at progress towards industrialising the economy

## A hard climb up the ladder

Once known as the Miracle on the Han, the Korean economy has reached a crossroads. It can adapt and join the ranks of the industrialised nations; or, crippled by dwindling productivity and competitiveness, the heavy hand of government intervention and restrictive regulations, it can follow the downward track of Japan, its neighbour.

Mr Il Sakong, a former minister of finance and now chairman of the Institute for Global Economics in Seoul, says: "Korea has reached an awkward stage of development. It is a Newly Industrialised Economy but not quite yet an industrialised economy. It is about to enter this new stage of industrialisation to join the ranks of the industrially advanced nations. The question is how it will move up this ladder."

For Korea to become a member of the Organisation for Economic Co-operation and Development, as it plans to do in 1996, it must adhere to its programme of deregulation, especially in financial markets; improve labour competitiveness and efficiency; maintain downward pressure on both wage and price inflation; open domestic markets to outside competition and introduce housing and land reforms.

There are also public sector issues to be tackled. To do so will not only win Korea credits

in the eyes of the OECD; it will also secure the next phase of economic growth.

It is a tough task, but one which the government at any rate believes it is up to. South Korea's first civilian president in 30 years, Mr Kim Young-sam, is regarded as reformative and forward-looking, although whether he can overcome the vested interests and lower ranks of ministry officialdom is a question over which many analysts harbour doubts.

Last April, Mr Kim's administration unveiled a five-year economic plan to restructure the fiscal system, slapping taxes on speculative property gains and scaling back taxes charged to foreign investors, and to liberalise financial markets, turning the present government-orchestrated system into a market-based version more akin to those in the rest of the developed world.

The five-year programme for financial liberalisation, introduced last year, aims to overcome the inefficiencies bred by the non-price allocation of credit, both in the economy as a whole and in the financial sector itself.

Under the plan, lending rates

and then deposit rates will be freed at the same time as the government loosens its grip on international capital movements.

However, the guiding principle is for gradualism - a policy which, while avoiding all the mayhem of a "big bang" approach to deregulation, may not best serve Korea at a time when so many of its neighbours are attracting foreign cash and technology.

Industrial development may also come too slowly to keep up with the rest of the world. Korean industry has lost its competitive edge at a time when world demand is on the upswing. Economists reckon there are too many vested interests and interlinked issues to allow for speedy progress.

Mr Lee Hahn-koo, president of Daewoo Research Institute, says: "We need foreign investment, and the government wants to reduce the obstacles to investment. But it cannot be so speedy because the public mentality does not change so quickly. I believe we are now starting to get out of that vicious circle, but not so fast."

The government is eager to avoid any currency apprec-

iation, which would hurt trading competitiveness. Mr Shin Myoung-ho, assistant minister of finance says: "There is a trend towards liberalisation, and so foreign governments and companies want us to speed our pace. But we have also to take into consideration some disturbances to the macroeconomic variables."

"There is still a substantial gap between domestic interest rates and international rates, so if we open up capital movement at this stage, we could suddenly have a huge inflow resulting in a sharp appreciation of our currency, or excessive liquidity causing inflationary trends."

For now, inflation is pitched to end the full year at under 6 per cent, despite a bad harvest which sent food prices soaring - although many Korean economists expect it to rise sharply next year. This is twinned with an upturn in the economy, which this year is forecast to grow at 7.6 per cent.

Interest rates, now close to the record lows of 1982, are also expected to remain soft until 1996. Less positively, the

current account is on track to move back into the red this year (after posting a modest \$500m surplus in 1993, which ended a three-year run of deficits) as imports, largely capital goods, surge. However, Baring Securities is looking for improvements in the second half of the year which will contain the 1994 deficit at a manageable \$1.9bn, or 0.5 per cent of GNP.

Mr Lee, who is not confident of Korea's ability to continue riding this wave after two years' stagnant growth, points to several factors which could further undermine Korea's climb up the industrialisation ladder.

He says that if the yen starts to depreciate against the dollar, so enhancing the price of Japanese exports, and demand from China retreats as its growth slows and its own industry becomes an ample source of oil and steel, Korea could find its trade flows are penalised. He also questions whether Korea can adapt to the competition in the national arena. Wage rises are out of line with improvements in productivity. Korea boasts the most expensive workforce in Asia after Japan, and Mr Lee

estimates wages this year will rise around 12-13 per cent, in line with union expectations.

However, Mr Il believes that a restructuring of industry into more sophisticated value-added areas will enable Korea to regain its competitive edge, and says companies have started out on this path by upping their investment in R&D in acknowledgement of the changing nature of competition, which now comes from the developed world.

"Companies themselves are in a transitional period. In financial structure terms, Korean companies have a high debt to equity ratio compared with the advanced countries, while R&D capabilities are not as high."

"But they realise they can no longer remain competitive the way they are now, so they are taking steps towards intensifying R&D and restructuring - but it is just beginning. If they are successful, of course the Korean economic restructuring will succeed, but it all depends on the companies' performance. And, based on our track record, I think we will do it. The question is how long it will take," he says.

## South Korea: key facts

Area	99,000 sq km
Population	44.1m
Head of state	Kim Young-sam
Currency	South Korean Won
Average exchange rate	1992 \$1-W 782.0
	1993 \$1-W 802.5

ECONOMY	1992	1993
Total GDP (W '000bn)	205.9	217.2
Real GDP growth (%)	5.1	5.5
GDP per capita (\$)	6,798	7,107
Components of GDP (%)		
Private consumption	54	54.1
Total investment	38.6	34.3
Government consumption	10.9	10.8
Exports	28.9	28.4
Imports	-29.9	-29
Annual average % growth in:		
Consumer prices (%)	6.2	4.8
Wholesale prices (%)	2.2	1.5
Average earnings (%)	15.7	7.8
Industrial production (%)	5.3	5.9
Unemployment rate (%)	2.4	2.8
Employment (m)	18.9	19.2
Yield on corporate bonds (%)	14.0	12.2
Govt bond yield (%)	13.2	12.0
Official discount rate (%)	7.0	5.0
Total reserves minus gold (\$bn)	17.1	20.2
Narrow money growth (M1)	13.0	19.0
Money growth (M2)	18.6	17.4
FT-A index (% change)	11.1	27.7
Current account balance (\$bn)	4.5	0.5
Merchandise exports (\$m)	75,189	81,084
Merchandise imports (\$m)	-77,316	-78,948
Trade balance (\$m)	-2,147	2,078
Main trading partners (%)	Exports	Imports
US	22.1	21.4
Japan	14.1	23.9
Hong Kong	7.8	na
Germany	4.4	4.7

(1) 1993 figures in October; (2) Manufacturing; (3) 3-year bonds; (4) Maturity up to 5 years; (5) December; (6) Year end. Source: IMF, EIM, Daewoo, OECD

Visitors to the Federation of Korean Trade Unions in Seoul these days will find their nostrils assailed by a thin, acrid smell redolent of sick rooms. A series of crude primary colour posters gives details of the hunger strike taking place on the sixth floor.

Here, in a large bare conference room, a handful of men lie around, reading comic books and computer manuals. One worker, in a suit, has not eaten for 20 days. "It is very painful but I have a strong faith that we will win," he says.

If the strikers' 107 colleagues who were fired for union activities are reinstated, faith will have proved a more powerful adversary than the FKIU and President Kim himself. But either way, the outcome will give little faith to foreign investors, who cite Korea's turbulent labour relations as a reason to avoid equity participation deals in the peninsula.

Mr Lee Jun-wan, general secretary of the FKIU - which, he says, takes in 1.4m of the country's 1.8m organised union members - adds his support to the strikers. The dispute, affecting workers at the automobile insurance arm of Tongpu, one of Korea's 30 biggest chaebols or conglomerates, has been going for over a year and

Though there are fewer disputes than in past years, labour relations remain tense

## Hunger strikers' faith may deter foreigners

is, he suggests, a symptom of the stronger power wielded by the chaebol's head, Mr Kim Jung-ki, a relative of President Kim. A court ruling early last month found Mr Kim not guilty, and the president is powerless to overrule the decision. Mr Lee says: "FKIU offered to solve this problem. President Kim ordered the Ministry of Labour very strongly to solve this problem. But there is still no solution."

Despite Mr Lee's protestations as to the FKIU's strength, the hunger strikers on the sixth floor suggest otherwise. If those lethargic figures represent hope to anyone, it is to the Korea Council of Trade Unions, a new illegal union that plans to give FKIU a run for its money from next year.

KCTU, owing no loyalties to government (unlike FKIU, which reaps some W7.5bn from government for educational purposes), claims it will more truly repre-

sent the workers' interests. It will certainly have a more militant edge, and stands to put a spanner in the works of labour relations which Mr Lee believes could be entering a more peaceful, non-violent era.

Korea has been a crucible of labour strife and disputes since 1987, when the Great Workers' Struggle erupted. A strike involving about 1m workers, it lasted from June to September and was one of the factors behind the emergence of a new democratic trade union, set up in January 1990. However, government pressure weakened the new union, and a more loose-knit, organisation sprang up to fill the gap: the Korean Congress of Independent Industrial Federations (KCIF).

KCTU seeks to bring together KCIF and the dissident Korea Trade Union Congress (KTUC), which was formed by the Democratic party. Its proponents

believe it will win over 600,000 members. Mr Shin Eun-cheol, the chain-smoking executive secretary of the KTUC, says: "The union movement is still powerful. We are facing a challenge so if we work well the union maintains its strength but if we fail to meet the challenge then we may also be ruined."

The government still has uneasy relations with unions that do not come under FKIU. KTUC says some 300,000 workers have been dismissed for union activities: there is even a Struggle Committee for Dismissed Workers' Reinstatement. Former KTUC president Pan Byung-ho remains in hiding - allegedly with a \$1m price on his head - after lecturing union leaders during the 52-day Hyundai strike last summer.

Even the government steers clear of putting a brave gloss on labour relations. An official at the Ministry of Labour says:

"The major problem is how to succeed in completing this year's wage negotiations between labour and management. In some enterprises we are afraid there could be labour disputes which will cause strikes. It is not only a question of wages. Workers in some big enterprises are making various demands, such as workers' participation in management. That is why management feels it is very difficult to succeed in signing labour contracts."

Two years ago, in deference to workers' demands, the government set up an 18-member labour reform study committee, which duly came up with a clutch of recommendations. The labour ministry insists: "We are going to try to make these amendments, but it is very difficult to say now what the timeframe will be."

However, some changes to labour policy have been effected under the civilian government, and statistically labour strife is

on the wane: from 3,617 labour disputes in 1987 to 200 last year and just 26 "small scale" disputes in the first five months of 1994. Wage rises have been negotiated at an average 8.7 per cent (the consumer price index stands at around 6 per cent); and almost half of the 5,500 biggest companies' wage negotiations had been concluded by June 9 - more rapidly than in previous years. In the same period last year 55.7 per cent had been concluded.

The new government swooped on labour policy shortly after coming into power. The prompt was economic rather than social: increasing international competition and a slack domestic economy were eroding profit margins and highlighting gross inefficiencies within the workplace. Productivity growth was failing to keep pace with spiralling wage increases.

But the hunger strikers' action shows that Korea still has much work to do on the labour front. As Mr Lee Hahn-koo, president of the Research Institute, says: "I don't think we are safe from disturbances. There's still some unrest. The workers are not so rational in Korea."

Louise Lucas

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South Korea is on the hunt for foreign investment and technology. The rapid rise in wages since 1988 means it can no longer compete as a low-cost manufacturing centre. Compared with the Philippines, Vietnam and China, costs are high. Instead, South Korea must compete in high-technology areas.

But although the country is now one of the leading manufacturers in the shipbuilding and automotive sectors, its technological base remains weak. Korean companies, on average, spend only 3 per cent of turnover on R&D, compared with about 7 per cent among their western counterparts.

The government is also anxious to attract investment from foreign companies, particularly Japanese component manufacturers. South Korea runs a hefty trade deficit with Japan, mostly caused by imports of sophisticated machine tools and automotive components.

But the hunt for foreign investment and technology is proving an uphill battle. Foreign investment in South Korea has fallen in recent years. Investment by Japanese companies fell from a peak of \$897m in 1988 to only \$155m in 1992, rising to \$286m last year. European investment peaked at \$324m in 1991 and fell to only \$307m last year.

The reason is that South Korea has a poor reputation as a location for foreign investment. A recent report by Political & Economic Risk Consultancy, the Hong Kong-based group which canvassed opinions of 56 corporate managers and bankers, was damning of South Korea's attractions.

Paul Abrahams on the south's bid to attract foreign companies

## Uphill battle for investors

The study suggested South Korea:

- was the most nationalistic country in Asia;
- was the most bureaucratic after China and Indonesia;
- had an economy dominated by cartels and state-owned companies;
- discriminated more than any other nation against foreign investment;
- was the most protectionist nation in Asia;
- had the highest potential for labour unrest;
- had a greater potential for social unrest even than China.

However, companies operating in South Korea believe there are two main obstacles hindering foreign investment - labour and tax.

Foreign investors have been concerned both by the high cost of labour as well as the number of industrial disputes. Admittedly, the latter has fallen by nearly three-quarters since the peak of 1988, but the legacy remains.

"Many Japanese companies were put off by the bitter experience of trade disputes a few years ago," says Mr Yoshiaki Onuki, chairman of the Japanese Association in Seoul. "Although the number of disputes has fallen, labour is still a problem. Pay is at a very high level. Japanese companies in Seoul pay their workers, on average, 70 per cent more than

pared with an average of 30 per cent in non-Japanese companies. Retirement costs are double those in our Tokyo headquarters," he says.

The other main problem facing foreign companies is the National Tax Authority. This body, working under the finance ministry, has recently launched investigations into as many as 25 European and US companies operating in South

also been affected by an inequitable tax regime, says Mr Yoshiaki Onuki, director general of the Korean subsidiary of Mitsui, the Japanese trading group. "Most of the Japanese banks and trading houses are losing money in South Korea. But the tax authorities then impose taxes on what they think you ought to be making. You end up making unexpected losses," he says.

Foreign Investment (in \$bn)							
	1987	1988	1989	1990	1991	1992	1993
Japan	497	697	486	236	226	155	286
US	255	284	329	317	296	378	341
Europe	210	243	212	207	324	282	307
Others	101	80	83	43	50	78	110

Korea. Huge tax bills have been imposed on some, leading to complaints that the measures were retroactive - dating back up to five years - and less than transparent.

"The economic co-operation bureau at the finance ministry is saying 'invest here, all is sweetness and light', but the tax authority is imposing five years' worth of retroactive taxes together with penalties and interest that wipe out your profits. It's ludicrous," says the chief executive of a European multinational.

Other issues include the high cost of land. Mr Byung-Seok Chang, president of Sony Electronics of Korea, explains that land near Seoul costs about \$200 for 3.3 sq metres. That compares with \$35 in Taiwan and \$35 in Malaysia, while in Singapore the same space rents at \$30 a year and at \$15 in China, near Beijing.

Intellectual property is another concern. "South Koreans are reputed to cheat on intellectual property. That reputation may be reality, but it remains," says a European businessman.

Mr Duck-Koo Chung, director general of the economic co-operation bureau at the finance ministry, insists the intellectual property problems have been resolved. Nevertheless, western and Japanese groups are concerned that by setting up joint ventures and offering technology transfer, they may give away their crown jewels.

Mr Onuki doubts if many Japanese component makers will invest. "Much of the technology they own was developed with the co-operation of the Japanese car manufacturers. The latter would take a dim view of handing over that technology to the Koreans."

However, President Kim Young-sam's government is anxious to make the country more attractive for foreign investors. This month its inter-agency task force for foreign investment will announce a series of measures that continue the deregulation process, ensuring greater competition.

The measures include faster approval of investment permits, more rapid approval of land purchases, special investment areas for foreign investors, easier access to short-term overseas loans and a special tax tribunal for overseas disputes. As for labour relations, Mr Chung insists the country's reputation is based on outdated attitudes. "There are now fewer disputes in

South Korea than in Japan. The policy of attracting investment has paid some high-profile dividends. The most significant have included the \$2.1bn deal concluded by GEC Alsthom, the Franco-British consortium, for South Korea's high-speed railway, and Samsung Heavy Industries' contract with Nissan Motor of Japan to import car technology.

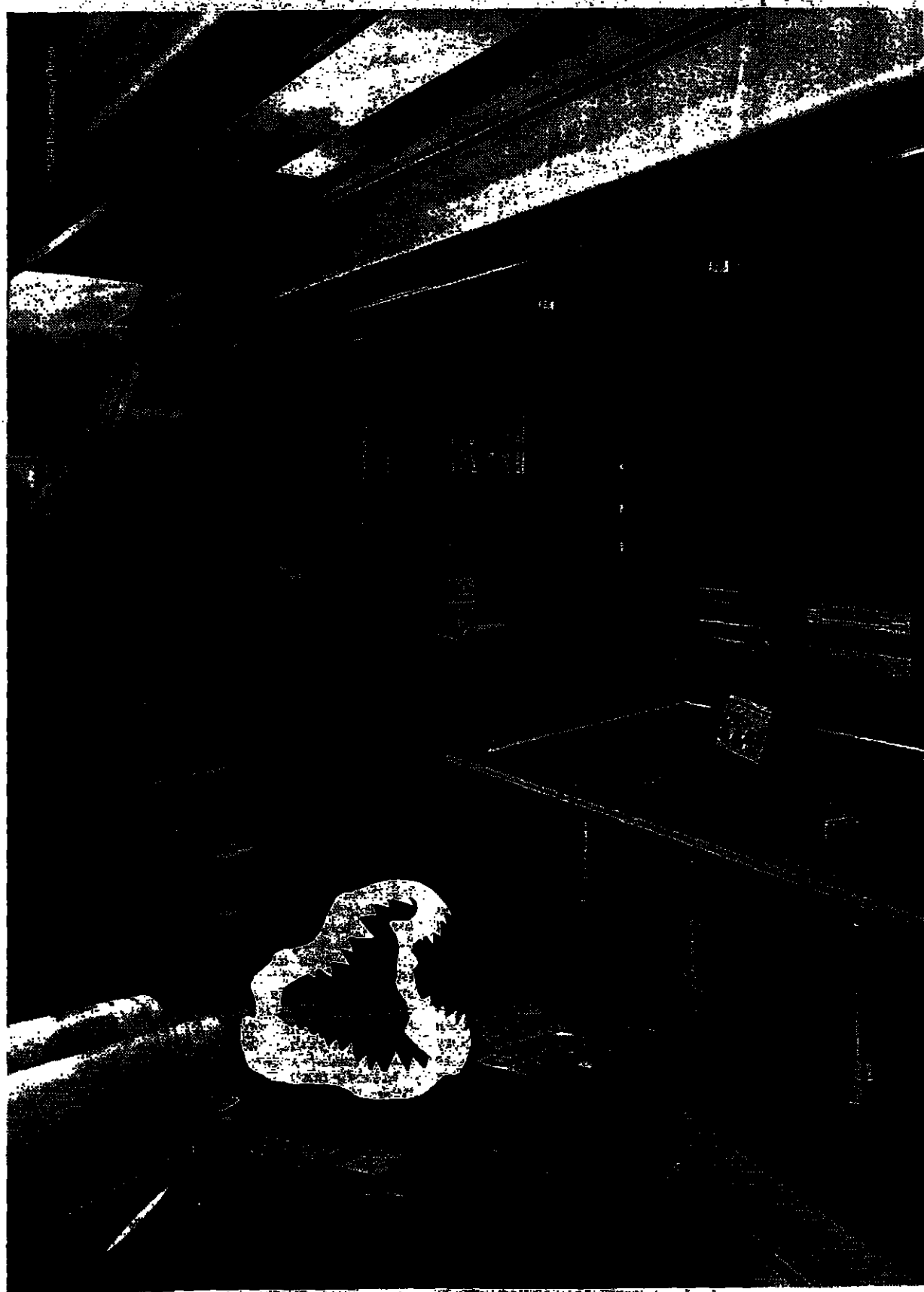
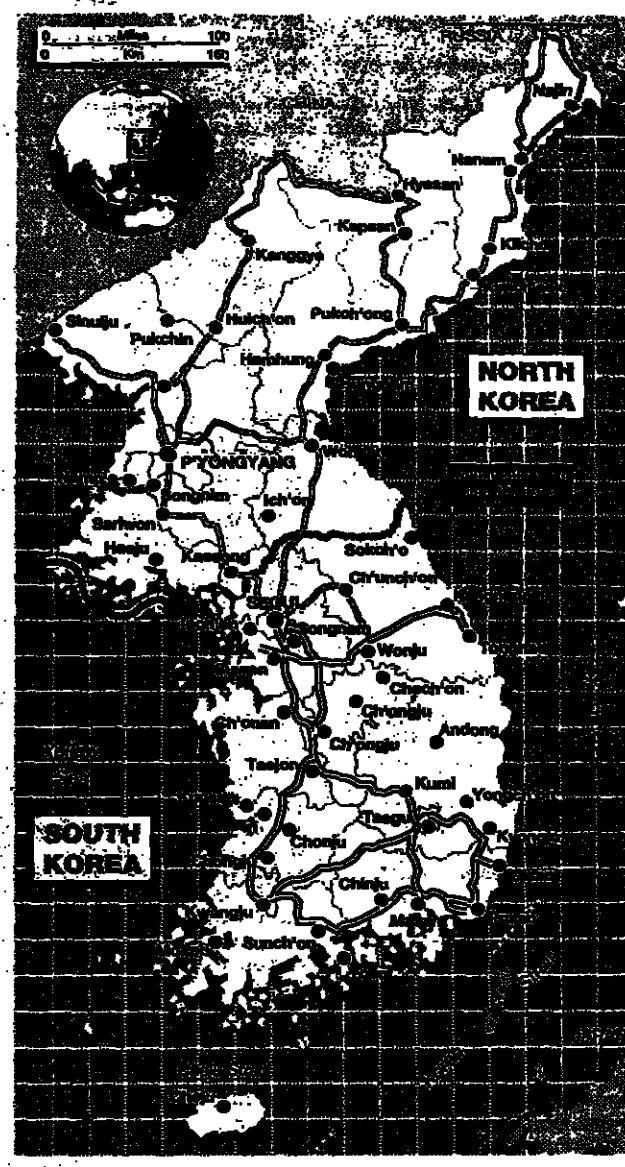
Nevertheless, not all companies are convinced. "Many long-established residents just do not perceive a great deal has changed," says Mr Alan Twist, president of the UK Chamber of Commerce.

"They seem to be trying to remove disincentives, but are not providing any incentives," complains one European businessman. "A radical shift is required even to start catching up with Vietnam or China."

Few Japanese companies seem set to leap back into Korea. "They need Japanese technology and management expertise, but until they sort out the main problems, I don't think there will be much interest," says Mr Onuki.

Even if such practical concerns are addressed, there remain cultural problems. "A number of Japanese companies set up joint ventures, but there's a real difference in management styles. The Koreans take so many holidays, and they expect special bonuses all the time," complains Mr Onuki.

Others remain cynical. One European chief executive laments: "They still want your technology. They still want your money. Then they still want you to get out."



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## KOREA 4

Paul Abrahams on investment in the north

## Pyongyang must wait

Though it sounds unlikely, North Korea hopes to compete successfully with other Asian countries in attracting foreign investment.

For the moment, the policy is on hold as the US attempts to co-ordinate UN sanctions because of the ref. use of Pyongyang to allow inspectors access to its nuclear facilities. But in the long term, the government hopes foreign investment will save the economy and incidentally sustain North Korea's political system.

Pyongyang needs overseas investment because the North Korean economy has moved into sharp reverse. The collapse of the former Soviet Union has cut off the nation's most important sources of foreign trade, previously representing half of all trade.

The North Korean economy shrank in 1990, 1991 and 1992, according to Dr Hongstack Chun, fellow of the Korea Development Institute. Latest figures from the South Korean central bank suggest it fell 4.3 per cent last year. Professor Aidan Foster-Carter of Leeds University estimates North Korea's GNP last year at only \$20bn, the same as a single year's GNP growth in South Korea.

Faced with a growing economic crisis, the Pyongyang government has been mesmerised by the success of reforms across the border in China.

The North Koreans have already emulated Chinese legislation to create the right legal environment for investment, according to Dr Chun.

Special investment areas, similar to Chinese special regions, have also been created. These include a site at Nampo near Pyongyang

aimed at South Korean investment, and another near the Chinese border. Tourist areas are also being created in the Kumgang mountains near the demilitarised zone, and Paektu on the Chinese border.

However, the most advanced project is the Tumen River Area Development Programme which has been co-ordinated by the United Nations Development Programme. This region is at the junction of the borders of North Korea, Russia and China. The rationale is that the North Korean coastal

The principal sum amounted to \$747m, although that has doubled because of interest. In addition, some loans to the former Soviet Union dating back to 1949 still remain unpaid.

Another reason for the international community's reluctance is the failure of most of the Japanese-Korean joint ventures. Some North Korean business practices have also been questionable. Infrastructure, or rather lack of it, is another concern. "There are no container facilities at the ports," explains Dr Chun. "More than 80 per cent of travel is by rail and the trains have an average speed of 40kph."

North Korea does have some advantages, however. Mr Mitchell points out that labour is well-educated, disciplined and highly productive. The internal market represents about 22m potential consumers. In addition, there are huge mineral and forestry resources. The north, a cheap manufacturing location at the heart of one of the world's fastest-growing regions, would also provide access to nearby markets in Japan and China.

zone would provide sea-access to northern China, explains Mr Jacob Guft of the UNDP.

However, progress has been slow and recently the Chinese and Russians have proved less than enthusiastic partners, he admits.

Indeed, the North Koreans' efforts have not proved particularly successful anywhere.

So far, the only investments have been small-scale projects by Korean Japanese sympathetic to Pyongyang.

"The North Koreans have been really disappointed," says Mr Anthony Mitchell of Hong Kong-based consultants Euro-Asian Business Consultancy. "However, it takes about two years between considering an investment and actually putting building the plant. The programme only really started recently, so there's still time."

One reason for the absence of investment is the north's continuing unwillingness to repay loans to the international banking community.

productive. The internal market represents about 22m potential consumers. In addition, there are huge mineral and forestry resources. The north, a cheap manufacturing location at the heart of one of the world's fastest-growing regions, would also provide access to nearby markets in Japan and China.

In the long term, all agree the north and south will be united. North Korea would offer a cheap point of entry to a market of about 70m consumers, says Mr Michael Breen of Merit, the Asian consultancy.

"There would be no tariffs from the north to south - they're the same country. There's bound to be investment over the next six months, although it depends on the Asian investment cycle. By 1996, North Korea could be on the cover of Newsweek as the new Vietnam," enthuses Mr Mitchell.

North Korea: economic indicators					
	1989	1990	1991	1992	1993
Real GNP growth	2.0%	-3.7%	-5.2%	-5.0%	n/a
Rice production (000 tons)	6,400	5,900	5,300	n/a	1,300
Population	21.0m	21.4m	21.8m	22.2m	22.6m
Exports	\$1.69bn	\$1.86bn	\$1.40bn	\$0.92bn	n/a
Imports	\$2.90bn	\$2.93bn	\$2.31bn	\$1.55bn	n/a
Trade deficit	\$1.21bn	\$1.07bn	\$902m	\$630m	n/a
External debt	n/a	n/a	\$4.7bn	n/a	n/a
Exchange rate*	0.94	0.94	0.96	2.16	n/a

\*North average

Source: Economist Intelligence Unit

The defence market opens up

## Europe's chance

In a united Korea would probably be an anomaly.

Washington's willingness to supply arms after such a withdrawal would be more equivalent than at present, they claim. "If the US has to choose between supporting Korea or Japan, there's no doubt who would lose out," says one European diplomat.

As a result, Seoul is hunting for military technology wherever it can find it, a policy which offers significant opportunities for non-US arms groups. European countries, less reluctant than the US to transfer technology, have already been able to snap up an increasing number of contracts. The market leaders are Germany and the UK, followed by France, Spain and Italy.

The areas where European manufacturers can compete most effectively are mostly where the US has no equipment available to meet Korean requirements. The most obvious example was the contract for nine diesel submarines concluded by Howaldtswerke Deutsche Werft of Kiel, Germany. The US does not manufacture such vessels. Similarly, American suppliers were unable to meet Seoul's requirements for transport aircraft with short runway capabilities.

The contract was eventually given to Casa of Spain which will supply 12 CN-235s at a cost of about \$200m.

On occasions the Europeans can win against US competition, however. Matra of France won a contract for about 150 Mistral man-portable surface to air missiles in a deal initially valued at \$180m, which could eventually be worth up to \$720m. Although the cheaper Stinger missile offered by US company General Dynamics was preferred by the South Korean army, the Pentagon was reluctant to release the technology. Matra's willingness to supply Lucky Goldstar with technology and allow it to participate in about a quarter of the project won the day with the South Korean government.

The Europeans' efforts would perhaps be more successful if they worked together. At present, European suppliers, sometimes from the same country, virtually slit each other's

throats in their efforts to win contracts.

"It's ridiculous that we have two European helicopter companies competing with each other," says one European diplomat. "It's difficult enough just competing with the US."

He gives the example of a consortium between British Aerospace and Sema of France which recently won a contract to supply the electronic combat system for Korean navy's destroyer programme against Atlas Elektronik, a German competitor, and Ferranti of the UK. Other diplomats agree that Europe's lack of co-ordination hinders its efforts, but there remain few signs of greater co-operation.

Meanwhile, US military authorities in South Korea argue that buying European

offering airborne early warning capabilities. The South Koreans are almost completely dependent on the US for information about movements in North Korea.

\*Trainer aircraft. After the failure of Daewoo Heavy Industries' indigenous KTX-I trainer, Lockheed of the US is offering help for early development for the KTX-II programme in a deal worth about \$700m. The next stage of development could be worth up to \$25m. The UK wanted to supply a cheaper redesigned version of the BAe's Hawk.

\*Frigates. South Korea's admirals have aspirations to a blue water navy, capable of operating beyond coastal waters. European diplomats say the US is offering reconditioned ships, but the South Korean navy wants new vessels of possibly up to 3,000 tonnes.

\*Deep water submarines. The UK is understood to have offered four second-hand Upholder class vessels, but the South Korean navy is not particularly interested.

\*Naval helicopters. \*Mine-hunters. \*Ground-based electronics, particularly in the field of command, control and communications. This might include military satellite communications.

\*Land-based helicopters. \*An upgrade of the K1 tank. Most of the equipment would probably be provided domestically or by the US, but European suppliers could ship some components.

The extent to which the Europeans can capture market share remains unclear. This is partly because in recent months few deals have been concluded. A purge of the armed forces and an anti-corruption campaign instigated by President Kim Young-sam has led to a virtual paralysis in military procurement. During 1993, only 20 per cent of the overseas procurement budget was actually spent.

"Nobody wanted to make a decision," explains one diplomat. The disincentives to take action received a further boost last year after a \$6.67m fraud involving a French-Korean, counterfeit bills of lading and a non-existent cargo of artillery shells. The affair cost Mr Lee Kyong Jae his job as defence

minister. However, diplomats say the decision-making process is now loosening up.

Although South Korea represents an opportunity for European companies, diplomats admit there are risks. In the first place, the contracts may not be particularly profitable. Some non-US suppliers have succeeded by offering low prices or even throwing in free samples. In addition, nearly all deals over \$5m include a mandatory offset of 30 per cent.

Another problem is that by winning a contract through technology transfer, the Europeans could create a future competitor. "The main advantage the Europeans have is their willingness to offer technology," but they mustn't offer too much," says one European diplomat.

However, most European observers discount such dangers. "What the Koreans have done in the automotive industry is extraordinary," says a European diplomat. "But there's a big difference between assembling a submarine or a trainer aircraft, and developing one for yourself."

Another explains: "The clever stuff is really beyond them. On a submarine, the sonars, weapons and controls to propel and direct the boat are all too sophisticated. It's worse in aerospace."

Indeed, the track record of the Korean Agency for Defence Development (ADD), responsible for acquiring technology and then developing indigenous weapons systems, is particularly patchy in that sector.

The most disastrous example is Korea's KTX-I trainer aircraft, developed by the ADD. The aircraft was underpowered and overweight, making the trainer difficult to manoeuvre, and there were problems with the landing gear.

The ADD is continuing to persevere, however. After the failure of the KTX-I, it is co-ordinating development of the KTX-II. Samsung, Lockheed of the US, and Casa of Spain are collaborating to develop a twin jet-engine trainer.

"The Koreans will keep pushing for technology," says one diplomat. "The Europeans will give it to them. But it's more likely to be the older generation kit - say the mark VI rather than the mark VII. The question is whether the Koreans, using all those PhDs to vacuum up technology from whatever source, will eventually be able to catch up on their own. In the short term, the answer is no. In the longer term, the question is rather more difficult to answer."

Paul Abrahams

John Burton looks at the south's foreign policy

## US is blamed for crisis

The most criticised aspect of President Kim Young-sam's administration has been its inconsistent policy on the North Korean nuclear issue.

Mr Kim has shifted back and forth between accommodation and tough rhetoric during his 16 months in office. This reflects deep divisions, largely based on generational differences, among the South Korean public and his own cabinet on how to handle North Korea.

But North Korea's apparent final refusal to allow international inspections of its nuclear facilities has ended the months of wavering in Seoul. The government now appears united in supporting stiff sanctions against the north.

This does not mean, however, that public debate on the issue has abated. There are predictions that South Korea could soon witness some of its biggest demonstrations since 1987, when the military government was overthrown, as students protest that the government's hard-line policy could eventually lead to war.

The nuclear dispute has served as a catalyst on Korea's future role in north-east Asia and Seoul's relations with the US, its closest ally.

Whatever the outcome of the crisis, South Korea is likely to adopt a more independent and assertive foreign policy in the future that could weaken its ties with the US and might even lead to acquiring its own nuclear capability.

Conservatives have criticised the government for allowing the US to dominate policy on North Korea at the expense of South Korea's national interests. They were angered by Washington's willingness to establish direct contacts and possible diplomatic relations with North Korea, a development they feared would weaken South Korea and strengthen the north.

As South Korea tried to undermine support for the north by wooing its Chinese and Russian allies, so North Korea was believed to be doing the same by using the nuclear inspection issue to gain US diplomatic recognition.

The collapse of Washington's conciliatory approach to North Korea in response to Pyongyang's continued refusal to

make concessions on nuclear inspections has vindicated the conservative faction and strengthened its influence.

But there are doubts in the two opposition parties - and among the 84 per cent of the population born after the Korean war ended in 1953 - that confrontation with North Korea is desirable.

University students believe that the US and Japan, not North Korea, represent the biggest potential threats to South Korea, according to a recent survey. They claim that the nuclear dispute has been provoked by the US to reverse Washington's dwindling influence on the Korean peninsula.

Anti-American feeling is widespread because of past US support for the country's military rulers. This view is not

nuclear dispute may be growing public acceptance for South Korea to possess its own nuclear arsenal.

"Many people wonder if South Korea should try to inherit the North Korean bomb once reunification occurs or try to develop our own since it would improve our security and status," said one Korean journalist. "We would no longer be the Korean shrimp among the whales of Japan, China and Russia."

South Korea tried to develop a nuclear bomb in the 1970s under its former military president, Mr Park Chung-hee, to counter the north's military strength. It was forced to abandon the programme under US pressure.

In contrast, it is the left that is now leading the call for

the reprocessing facilities would enable South Korea to obtain plutonium for possible nuclear weapons in the event of an national emergency.

Although Mr Park supports strict international inspection procedures for the South Korean reprocessing facilities, their existence "would serve as a check against North Korean tactics."

"We can talk on equal terms with other nations which have similar nuclear facilities," he said. "Though Japan is exemplary in terms of its nuclear transparency, no one can deny its potential for nuclear weapons capability."

South Korean nuclear industry officials favour reprocessing facilities on practical grounds since the country is having difficulty finding sites to store nuclear waste.

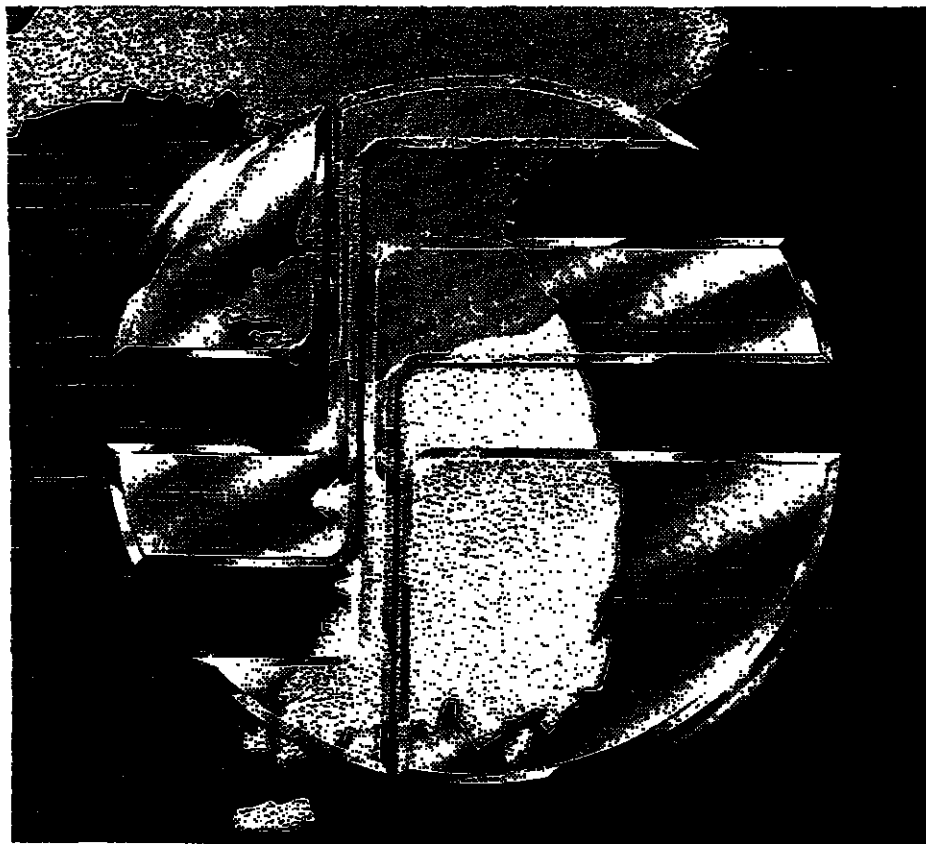
But one obstacle is that the US has barred South Korea from reprocessing spent nuclear fuel since the 1970s as part of its policy of stopping Seoul from developing nuclear weapons.

"South Korean nuclear and missile sovereignty should be restored," says Mr Park. "Our sovereign rights over the peaceful use of nuclear energy and missile development have been unjustifiably suppressed by the US. Consequently, this nation now has no alternative but to depend on the US for its security whenever threatened by the North Korean strategic capability."

The government has strongly condemned any suggestion that it is considering building nuclear reprocessing facilities, explaining it would increase tensions in the region. It would also violate the 1991 North-South Korean denuclearisation treaty, which bans plutonium-separation facilities.

The proposal to acquire reprocessing capabilities is an "irresponsible idea being promoted by the opposition," says one aide to President Kim Young-sam.

But that may not be true much longer if the government decides to nullify the inter-Korean denuclearisation treaty because of North Korea's construction of a suspected nuclear reprocessing facility and its refusal to allow international nuclear inspections.



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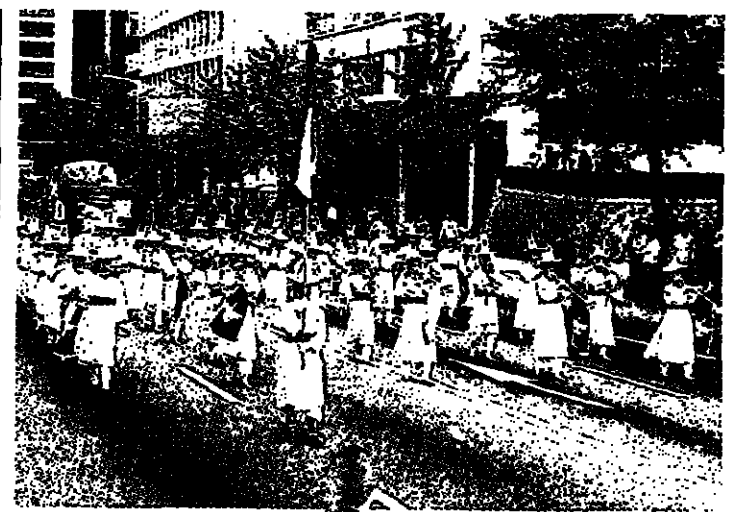




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## KOREA 6

Paul Abrahams considers the affinity - and also the antipathy - towards the Japanese

## So close - and yet so far apart

South Korea is xenophobic. Suspicion of foreigners and foreign goods is instilled at primary schools, propagated by the media and practised by bureaucrats and businesspeople. There are, of course, individual exceptions. But South Korea is probably one of the most xenophobic countries in the world.

The cause of this extraordinary collective dislike of things and people foreign is not hard to fathom. Korea has been invaded, ravaged, and economically exploited by foreign powers throughout its history. Forces from the country's three powerful neighbours, Japan, China and Russia, have all battled over the country, while even before the Korean War, troops from the US, France and the UK each made incursions of various gravity.

Although Korea has endured onslaughts from all directions, South Korea's xenophobia is targeted at one country in particular - Japan. A visit to the Independence Hall of Korea, near Chonan, a shrine to nationalism visited daily by thousands of children, explains why.

The most popular exhibit - in the Japanese Aggression Hall - is a waxwork display illustrating Japanese soldiers during the occupation between 1910 and 1945. They are shown in the process of torturing Korean women, and hurrying Korean men up to their necks before beheading them.

The hall explains to the children how the enmity between the two countries dates back to the first Japanese invasion of 1592 when Shogun Toyotomi Hideyoshi's forces ransacked the country. They can read

citations of merit awarded during the conflict which granted a stipend to Koreans who beheaded more than one Japanese soldier. On view is a replica of one of the "turtle ships" that Admiral Yi Sun-Shin used to destroy the Japanese fleet. And in case the message has not sunk in during the visit, the children can buy comic books retelling the sagas of Korean heroes and heroines fighting against the Japanese.

Admittedly, the museum does offer a few details of other foreign incursions. The Manchurian invasion of the early 17th century, which was probably as destructive as the earlier Japanese attack, is given a little space. One of the hundreds of monuments erected in the 1870s by Regent Hwangun Tae-won-gun after the French and US landings is also on show. It reads: "Western barbarians invade our land. If we do not fight, we must then appease them. To urge appeasement is to betray the nation."

But the main emphasis of the museum is directed against the Japanese. Such sentiment is propagated throughout South Korea. Take Korea's submarine construction programme. The first vessel was called Changbogo-Ham, after the 1st century Korean admiral who fought the Japanese. The second was the Lee Chun-ham, named after another admiral who struggled against the Japanese.

The third, the Choenam-Ham, was named after the 14th century admiral who destroyed about 500 Japanese pirate ships using gunpowder and guns. Fourth was the Park-Wi-ham, after the admiral who attacked Tsushima Island in Japan and crushed 300 Japanese vessels in 1389. Even

## Trade deficit with Japan deteriorates

Year	\$bn
1989	3.99
1990	5.93
1991	8.76
1992	7.86
1993	8.45

Source: Ministry of Finance

South Korea's armaments programme, the Yulgok project, is named after a 16th century court adviser whose warnings about the possibility of a Japanese invasion were ignored.

The Japanese Aggression Hall focuses not only on the atrocities during the colonial period, but also on the cultural imperialism imposed by Japan. In the later stages of its colonial occupation, Japan attempted to force complete union by obliging Koreans to adopt Japanese style names and enforcing use of Japanese

in state schools. Inability to speak Japanese meant Koreans were denied ration cards. The Japanese also tried to stop the Koreans wearing their traditional white clothes. Pictures in the hall also show Koreans being forced to worship at Shinto shrines.

Few nations continue to poke at the sores of the second world war with as much fervour as Korea. This compares with a Japan, where many continue to deny Japanese blame for the outbreak of hostilities during the Manchurian incident in the 1930s and refuse to admit that the Japanese army committed atrocities during the subsequent war.

Earlier this year, Mr Shigeto Nagano was forced to resign as Japan's justice minister just 10 days after taking office. The reason was that he had voiced the view, commonly-held among older Japanese, that the massacre of 150,000 people in the former Chinese capital of Nanking in 1937 never happened. He also claimed that the occupation of China had not been an act of aggression.

Many Japanese also still refuse to admit the role of the Japanese imperial army in setting up brothels during the Pacific War using other Asian nationals, including Koreans, known as comfort women. The Japanese government only last year acknowledged and apologised for coercing such women.

At least 100,000 of them were Koreans.

As for Japanese attitudes to the colonial period, diplomats in Tokyo privately regard the Koreans as not recognising the beneficial side of colonialism. During 37 years of occupation, Korea's economy was transformed, they say. Feudalism was abolished, the political and judicial systems updated, the economy advanced from an agrarian to a semi-industrial state. Agricultural production increased, railways were built and mining and forestry operations vastly expanded. Such patronising attitudes infuriate the Koreans.

Given the history of Korea and Japan, relations between the two countries are understandably not as good as they might be. However, both governments are trying to create a rapprochement between the countries, ending centuries of enmity.

The Koreans want to reduce their massive and worsening \$15bn trade deficit with one of their most important trading partners by attracting Japanese technology and investment, particularly in the realm of automotive components and machine tool technology. The Japanese, for their part, view the possible nuclear build-up in North Korea as a direct

threat to their security, and so are anxious to support Seoul.

However, to attract additional investment and generate more cordial relations with Japan will require a massive change in attitudes among Koreans, who will have to exorcise the Japanese ghost from their national psyche. It will also need a complete re-direction of Korean nationalism.

Admittedly, the Korean attitude to Japan is ambivalent. There is the fascination of the Japanese economic model. Protectionism, large conglomerates and state-directed investment have all been borrowed from Japan in an effort to emulate that

Any rapprochement with Japan is likely also to require a reassessment of Korea's own role during the Pacific war. Although the Independence Hall of Korea stresses the horrific treatment by the Japanese of Korean "comfort women", there is no mention of the tens of thousands of Koreans who fought for the Japanese during the Pacific War, many of them volunteers. The behaviour of Korean prison guards, many of whom had a worse reputation for cruelty among Allied prisoners of war than the Japanese, is also glossed over.

Nor does the museum explain that Korean collaboration reached the highest echelons of subsequent governments. For example, former President Park

Chung-hee saw active service in the Japanese Imperial Army in China during the final stages of the conflict. Many members of the government after the 1961 coup also had Japanese military experience.

How successful are the two governments likely to be in their efforts to reduce animosity? Certainly, the countries have a cultural affinity. The Koreans are proud that the Chinese influence, so pervasive in Japanese life, was transmitted through Korea. They share Confucianism, both support a

similar form of capitalism, and they are also among the few democratic governments in Asia. Economically, they could form a powerful trading block. But although they may be physically close, the countries remain mentally apart. The long-term relationship will depend on how Korea views its strategic interests in a post-unification future. Without a threat from the north, Korea will be bereft of an external threat. Is Korea sufficiently mature to feel comfortable without an enemy?

South Korean policy makers are unsure whether Korea and Japan, the region's two economic powerhouses, are set on an inevitable collision course, leading to an arms race that would shatter the strategic balance in north-east Asia. The ambition of the Japanese self defence forces to acquire aircraft carriers is viewed with alarm by the Koreans who believe such vessels can in no way be construed as defensive weapons.

The alternative policy, viewed as desirable by some bureaucrats in the Blue House, the president's residence, is the creation of huge trading bloc between Japan, Korea and Taiwan, which would offer a combined market almost as large as the US.

If they are to be successful in healing this bruised relationship, the Japanese must become more sensitive to Korean concerns. The Koreans, for their part, must develop a more mature form of nationalism, based less on a xenophobic past and more on the needs of the future. The alternative is an arms race that will serve neither countries' interests.

John Burton looks at the secure home base of the country's car manufacturers

## Trade barriers foster overseas growth

The growing number of new Korean cars appearing in western cities from London to Los Angeles is a sight that enrages European and US motor companies.

While western carmakers worry that South Korea may repeat the success of Japan in posing a serious challenge in their home markets, they are virtually shut out of Korea, which is the second biggest car market in Asia after Japan.

Korea last year imported only 1,984 passenger cars, which is almost the same as the number of cars sold in a single day in the country. In contrast, Korea exported a record 639,000 vehicles last year, with one third being shipped to western Europe and the US.

Korea's restrictions against car imports are cited as one example of how the country has used trade barriers to foster the growth of its main industries by protecting them against foreign competition. The complete domination of the domestic market by Korea's big three carmakers - Hyundai, Kia and Daewoo - has helped transform the country into the world's sixth largest vehicle producer.

Korean car manufacturers are now launching an aggressive export offensive in Europe and the US from their secure home market.

Hyundai Motors, South Korea's largest car manufacturer and biggest vehicle

exporter, already has a strong presence in the US and Europe, which accounts for 63 per cent of the company's overseas sales. Its marketing strength reflects Hyundai's status as the only Korean car company that has been able to sell vehicles under its own badge abroad through an independent dealer network.

Kia Motors and Daewoo are launching an export offensive from a secure home market.

Motor, Korea's second and third largest car companies, have also been shipping vehicles to the industrialised world by supplying them on an original equipment manufacturer (OEM) basis to their respective partners, Ford and General Motors.

They are now starting to establish an independent presence in Europe and the US. Kia started marketing in western Europe last autumn and recently announced that it would start producing its popular Sportage four-wheel sports utility vehicle in Germany early next year in a joint venture with Mannmann.

an automotive engineering group. Kia also plans to expand its US distribution network to 330 dealers by 1996.

Daewoo will enter western Europe next year and the US in 1996 following the recent collapse of its joint venture with GM, which had imposed export restrictions on the Korean motor company.

The prospect of increased Korean vehicle exports is provoking European and US car companies to demand that Korea open its market to foreign competition or face retaliation.

European motor companies are calling on the EU to revoke the generalised system of preferences (GSP) that lowers tariffs on Korean cars.

The US is asking that Korea cut its import tariff on passenger cars from 10 per cent to 2.5 per cent and revise vehicle taxes that discriminate against foreign models. Restrictions on the number of distribution outlets available to importers and a complex certification system are regarded as the main non-tariff barriers to foreign cars.

Korea has already made a few concessions on the issue. The government says it has abandoned tax audits of for-

eign car customers, a practice that importers claim was meant to discourage their purchase as part of an official crackdown on conspicuous consumption.

Seoul is considering some of the other demands made by Washington. US officials expect that the luxury tax on executive cars will be cut and limits on TV advertising will be eased.

The promise of lower barriers is already prompting more western car manufacturers to open showrooms in Seoul. But most analysts believe that the increased presence of European and US cars will not seriously threaten Korean car companies. "European car-makers will only have a minimal impact on the market," says Mr Gilles Anouh, head of the EU office in Seoul.

The American Chamber of Commerce in Korea estimates that if car imports increase from their current market share of 0.14 per cent to 4.9 per cent, the same level as in Japan, it would represent 70,000 vehicles with annual sales of \$1bn.

A greater potential threat to the Korean motor industry would be opening the market to Japanese car imports, which

are now virtually banned. "Korean car companies at their current stage of development cannot compete against the Japanese," says Mr Kim Moo, a vice president at Samsung Heavy Industries, which is planning to enter the passenger car industry.

For a start, Japanese cars have a quality advantage over their Korean competitors. They might even be price-competitive despite the high yen due to better productivity in Japanese car factories and low transport costs from Japan.

The government is considering dropping the import ban on Japanese cars in 1997, a measure that could disrupt Korea's ambitious programme

to become one of the world's five largest carmakers.

In spite of trade protection, Korean car companies suffer from low profitability. Hyundai and Kia reported 1993 earnings of Won58bn and Won18bn respectively, while Daewoo lost Won60bn. Although all had improved earnings performance last year, analysts believe profits could have been much higher given the 20 per cent rise in total sales. Increased marketing costs and heavy debt burdens have cut into profits.

Competition in the domestic market is already expected to increase with the entry of Sangyong into the passenger car industry in 1996, followed

possibly by Samsung a year later. Although Korea remains one of the world's fastest growing vehicle markets, there are doubts whether a nation of 42m can support five car companies.

Growing pressure in the home market is the main cause for the Korean motor industry's rapid expansion overseas. Besides western Europe and the US, Korea is focusing on China as a new market. Car ownership in

China is expected to triple to 3m in the next decade. "Korean vehicle makers view China as the source of their future salvation," says Mr Brian Gold, of Euro-Asian Business Consultancy in Seoul.

Western car companies, frustrated about entering Korea, can at least take comfort from the fact that their Korean rivals are having similar problems in breaking open the Chinese market.

In what one Seoul-based western motor analyst calls "the height of audacity given Korea's own record," Seoul recently asked Beijing to drop barriers against Korean car imports.

Korea is also seeking to establish car factories in China as a means to penetrate the market. But Beijing is demanding that the Koreans establish joint venture automotive component plants as a first step, while postponing approval for the car factories.

Some Korean car companies are resisting the request, believing that the supply of components could give the Chinese the technical capability to create an independent motor industry that might eventually challenge Korea.

The impact of Gatt on a key industrial group

## Samsung in the global village

The Uruguay Round of Gatt has sharply divided South Korea, provoking a clash between tradition and modernity.

Farmers demonstrate in the streets of Seoul and other cities to protest at the opening of the rice market, which they warn could destroy the agriculture industry and with it the source of the country's rich culture.

In contrast, the Samsung industrial group tells its workers in a corporate video that "if we fail to open our door to foreigners, both Korea and Samsung will perish".

Parliamentary approval of the new Gatt agreement, which is expected this summer at the earliest, would represent the most significant sign yet of the government's commitment to accept a more open economy. If farmers are the biggest losers from the Gatt treaty, Korea's big conglomerates, such as Samsung, believe they will be the main beneficiaries because the accord promises increased business.

Industrial groups such as Samsung are the best-prepared sector of the economy to take advantage of the Uruguay round because we have been exposed to foreign competition for 30 years, while the service and agricultural sectors are vulnerable because they have been protected," says Mr Lim Dong-sung, president of the Samsung Economic Research Institute.

One obvious benefit is that exports of Korean manufactured goods will increase due to the reduction of tariffs. Samsung is the world's leading producer of semiconductor memory chips and Korea's largest consumer electronics company. Its other main businesses include ships, machinery and petrochemicals.

Although Samsung, the country's second largest conglomerate, is expected to face stiffer competition at home due to increased imports, particularly in the petrochemical and machinery sectors, it believes that growing exports will outweigh the negative effect of lower Korean tariffs.

Samsung has also recently reduced its operations in textiles and food processing, two

other sectors that could suffer under increased imports from China and south-east Asia as tariff barriers are dismantled. Nonetheless, Mr Lee Kun-hee, the Samsung chairman, remains deeply concerned that the group, which his father founded in 1938, remains psychologically ill-prepared to compete in the global market.

"Despite the enormous changes in the world, Samsung has yet to comprehend how far behind we are in these rapidly changing and competitive times," Mr Lee wrote in a group pamphlet that has become a mandatory reading for its employees.

"We are still caught up in the notion that Samsung is the best in Korea. We cannot be satisfied with that notion because it has no meaning in this global village," he adds. Mr Lee last year introduced management reforms that emphasise individual initiative in a group that was known for its rigid hierarchical structure. The reforms were widely publicised in Korea after Presi-

dent Kim Young-sam recommended that government officials should study Samsung's new management practices.

But there has been growing resistance among employees to the changes, which are considered "too radical", according to one Samsung executive. An internal survey revealed that a majority of workers disliked Samsung's new working hours of 7am to 4pm, which were introduced to improve efficiency.

Moreover, the group seems to be anxious to support Seoul. However, to attract additional investment and generate more cordial relations with Japan will require a massive change in attitudes among Koreans, who will have to exorcise the Japanese ghost from their national psyche. It will also need a complete re-direction of Korean nationalism.

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One benefit from the Gatt agreement is that it could force the government to accelerate its financial liberalisation programme, leading to lower capital costs

The entry of Japanese cars into the domestic market could also hurt Samsung's plans to begin passenger car production. In late 1997, although Samsung believes that its recent agreement to buy advanced technology from Nissan of Japan will make it competitive.

One benefit from the Gatt agreement is that it could force the government to accelerate its financial liberalisation programme, which would improve opportunities for Samsung to finance its corporate activities.

Samsung and other Korean companies generally have to pay high interest rates on capital raised at home because of the country's antiquated and inefficient financial system. Companies are also restricted by the government from raising large amounts of cheaper funds abroad.

The opening of financial services "will help the competitiveness of industry because it will promote increased efficiency in the domestic financial sector and lead to lower capital costs," says Mr Lim.

Lower capital costs are crucial for Samsung as it undertakes a restructuring of its operations. Samsung plans to expand its high-tech activities, including costly research on developing a next generation of 256-megabit memory chips. It will also spend at least \$2bn on its car project by 2000.

But financial liberalisation will also have a negative impact, at least temporarily, on the financial service business that Samsung is developing. It already owns leading insurance and credit card companies and bought a securities firm in 1992.

"These financial companies will suffer a bit initially because the financial sector in general is vulnerable to foreign competition, but in the long term we don't expect our position will be harmed," says Mr Lim.

Indeed, analysts believe that Samsung and other conglomerates that operate financial services will benefit in the long term from financial liberalisation. The government is expected to break down barriers among various financial sectors and allow the creation of comprehensive Korean financial houses as one means to improve their competitiveness against foreign rivals.

"Financial liberalisation will provide an opportunity for Samsung and other conglomerates to edge out weaker competitors and expand their financial services, outside of banking, as the financial industry undergoes consolidation," says Mr John Wadde, an analyst for BZW in Seoul.

John Burton

## SAMSUNG CORPORATION

Notice to the holders of Samsung Corporation Global Depositary Shares.

NOTICE IS HEREBY GIVEN TO THE HOLDERS OF THE ABOVE MENTIONED GDSs THAT: The Board of Directors Meeting of the Company, held on April 20, 1994, resolved to issue NEW SHARES under the following terms and conditions.

- Form of shares: common shares in registered form.
- Number of shares to be issued: 1,976,000 shares of common stock.
- Issue Price: 26,400 Korean Won per share, tentatively.
- Allocation of New Shares:
  - 20% of Rights Issue shall be allocated for subscription by employees of the company according to the Law on Fostering the Capital Market in Korea.
  - Remaining 80% of Rights Issue shall be allocated for subscription by shareholders registered on June 1, 1994 in the proportion of 0.09338319 share per one share (2 GDSs).

Both the holders of common shares and the holders of non voting preferred shares are entitled to subscribe for new common shares in proportion to their respective shareholdings.

Record date: June 1, 1994.

Subscription period: July 11, 1994 - July 12, 1994.

Payment date: July 14, 1994.

8. Others

- Fraction of shares and unsubscribed shares shall be disposed of according to the Resolution of the Board of Directors Meeting.
- The actual issue price will be determined at a later date pursuant to the regulations of the Korean Securities and Exchange Commission. Such price will in no event be greater than the tentative issue price mentioned above.
- GDS holders should contact the Depositary (Citibank, N.A.) for further information.

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## KOREA 8

John Burton looks at the impact that market liberalisation may have on Cheju

## Island's charm is under threat

The beautiful volcanic island province of Cheju provides a good example of the challenges that South Korea is confronting in opening its domestic market to foreign competition.

Its half-million citizens are debating whether the benefits offered by wider international access will outweigh the disruptive changes caused by market liberalisation.

Cheju, which lies 100 kilometres south of the Korean mainland, will be one of regions most affected by the relaxation of restrictions on agricultural imports under the recent Uruguay round of GATT.

The threatened decline of the agricultural industry, which has supported the island for centuries, is accelerating a shift toward international tourism as the province's new economic mainstay.

This is also forcing a change in attitudes

**When Korea was a monarchy, political exiles were banished to the island**

on the island, which has traditionally displayed a fierce independence to the outside world.

Cheju's tragic history has been marked by frequent revolts against the central government in Seoul. Its farmers were mostly freeholders, rather than tenants as in the rest of Korea, which contributed to a resentment against the heavy hand of the central government.

The rebellious nature of the island was reinforced by its role as a place of banishment for political exiles until the expro-

tion of the Korean monarchy in 1910.

The island suffered a mini-civil war in 1948-49, which was a harbinger of the Korean War of the 1950-53, when the Seoul government adopted a tough policy in reasserting its authority over the island following Korea's liberation from Japanese colonial rule.

An estimated 30,000 persons, about 12 per cent of the island's population at the time, were killed during the insurrection.

The island's bloody history has created ambivalent attitudes toward the vast changes being imposed on Cheju from the outside.

The most significant development will be the decline of agriculture, which still accounts for 36 per cent of the island's economy.

Cheju's agricultural industry is largely based on tangerines, which are grown on small, inefficient and heavily state-subsidised farms on the southern half of the island. The full opening of the Korean market to tangerine imports by 2004 is likely to lead to a consolidation of local farms.

The government, however, hopes to take advantage of the lower trade barriers promised by the Uruguay round to increase tangerine and other agricultural exports to Japan, which are expected to triple within the next five years to \$100m.

Cheju is seeking to create a sales network for agricultural products in Japan and establish direct shipping routes there for the quick delivery of produce.

But these measures are only meant to preserve some of island's agricultural

industry and will do little to sustain Cheju's economic growth. Instead, the government is concentrating on international tourism as the key instrument to revive the island's fortunes.

The natural beauty of the island is



Cheju: the island depends on tourism and tangerines

well-suited to attract visitors. Its landscape bears more similarities to Europe than to Asia, combining the volcanoes of Iceland with the moors of Ireland and the coast of northern Italy. The push for tourism began in the 1970s, when Cheju was developed as a honeymoon resort for Korean couples. It enjoyed a captive market since overseas travelling by Koreans was severely restricted by the government until the late 1980s. Tourism in the past few years has become the island's biggest industry, accounting for 40 per cent of the economy.

But the recent easing of travel restrictions has meant that Korean newly-weds are now visiting Guam, Saipan and Hawaii instead. Cheju has switched its tourism strategy to attracting more foreign visitors, particularly from Japan and Taiwan.

A total of Won7,800m will be invested in Cheju by 2001 to build a series of resort complexes in an attempt to increase tourism by 50 per cent to 5.2m visitors annually. The emphasis will no longer be on mass tourism, but on attracting prosperous individual travellers.

"We would like to build more hotels, sports facilities, aquariums, amusement parks, yacht marinas and casinos in the hope of making Cheju the Las Vegas of Asia," says Mr Chi Yoon-tai, president of

the Korean National Tourism Corporation. The KNTC has already established one resort complex at Changsan Beach and will participate in the construction of two others. The Hanjin conglomerate, which owns the country's main carrier Korean Air, is also planning to build a resort facility.

The government estimates that increased tourism by high-spending visitors will quintuple the size of the island's economy to Won7,800m by 2001.

But the islanders have expressed resentment at the development plans. "Cheju people are very independent-minded and don't like to be interfered with by outsiders," admits Mr Chi. "These people sometimes feel that the outsiders are reaping all the advantages of the development and they are left with little."

But the conclusion of the Uruguay Round and its impact on the island's

**Cheju enjoyed a captive market since the government severely restricted overseas travelling**

agricultural sector are changing people's attitudes. "They now realise that they have a beautiful place for tourism, which will mean their survival. They are beginning to understand that tourism is very important," Mr Chi explained. Public opposition to the building of a second golf course on Cheju, for example, is receding.

But the threat remains that extensive development will spoil the island's considerable natural charm and destroy the appeal that first attracted visitors to Cheju.

Louise Lucas reports on efforts to boost tourism

## Overseas publicity criticised

This season's T-shirts in Seoul feature the cute kids of the Visit Korea Year logo, banal grins distorted in fear and chubby legs in flight as a South missile approaches from the armpit zone. The legend runs: "You'd better visit Korea in 1994... because it might not be here in 1995".

North Korea's nuclear ambitions have undoubtedly made something of a mockery of the republic's drive to woo tourists in 1994; but hoteliers and other industry figures complain the drive has been as ill-conceived as it has been ill-timed. Marketing has been thin and poorly targeted, incentive schemes have gone untagged. The tourist office in Seoul shows an exotic promotional video containing war clips among shots of cherry blossom and snow-clad mountains.

The Korean National Tourism Corporation will spend some \$8m on the campaign, promoting Korea as a tourist destination through TV advertisements on Star TV and CNN, publicity tours for travel

agents and school teachers, poster ads on buses from London to Hong Kong, and - intriguingly - through sending some 59 Miss Korea contestants to entice Americans in New York, Los Angeles and Washington to sample the delights of Korea. That could well be the winning stratagem in KNTC's armoury.

KNTC, which has masterminded the Visit Korea Year in commemoration of Seoul's sixth centennial, claims success: tourist arrivals in the

**50 Miss Korea contestants will visit the US to entice Americans to sample the delights of Korea**

first five months of the year are up 18 per cent year-on-year and it expects 4m visitors for the whole of 1994, a 20 per cent increase on last year's 3.3m but still below the 4.5m forecast in its own promotional slide presentation. The average visitor spends four days and five nights, during which he will spend \$1,100.

Ambassador Chi Young-tai, KNTC's president, says the figures are encouraging and blames any shortfall in visitors on the nuclear issue. "Sometimes relations are stormy between North and South Korea and unfortunately this is a very stormy period, but I'm sure the cloud will pass over."

"If you look around it's business as usual - the stock market is rising and traffic jams are as bad as ever - so it's only the news media that see things differently."

KNTC's efforts in pushing tourism are impressive: the tourist office, complete with theatre and raised map models, must rate as one of the most comprehensive and user-friendly in the world and staff display CD-Rom memories and impeccable English. The trouble is that they are to an

extent preaching to the converted rather than broadcasting the message further afield.

That, at any rate, is the lament of the hoteliers. The 1,500-room Lotte, one of Seoul's leading tourist hotels, reports no noticeable improvement in sales this year - because of the nuclear scare, the recession in Japan which provides 70 per cent of its customers (although this is offset to some extent by the strength of the yen) and the government's failure to spread the Visit Korea Year message abroad.

According to a hotel executive, "Malaysia had a very good Visit Malaysia Year, but we have not been so successful in promoting sales in Visit Korea Year. That is mainly because the KNTC is in charge of sales promotion. I guess the promotion planning is a little

strange and out of date.

"They do not have enough experience in promoting abroad, nor have they made sufficient preparations in time. That - and the fact the budget is insufficient - is why they have failed," he explains.

Ms Seung Eun Chung, sales manager (Europe) for The Westin Chosun, one of Seoul's 10 de luxe hotels, cites the case of a Canadian travel agent who was unaware of one of the government's key incentives - scrapping the 10 per cent tax which is normally added to room rates for non-resident guests and travel agencies.

Having been told, the agent tried to contact the Korean government representatives in Toronto for further information - but drew blanks all round. Many guests staying in the Westin Chosun and bene-

fiting from the 10 per cent reduction were also unaware of the government's bounty.

"My feeling is that the government has failed to promote Visit Korea 1994 abroad. They have also failed to activate demand internally," says Ms Chung.

Much of the push has been concentrated on Japan, which yields some 45 per cent of Korea's tourists. The tireless KNTC has supported this internally by providing Japanese as well as English booklets and cassettes for taxi drivers, although Ambassador Chi admits to limited success here. "They don't realise how important their role is in promoting tourism. Sometimes they are very rude, especially because of language problems."

Broadcasting the need to learn English - "to interna-

lionalise" - has been an important spoke of the tourism campaign, and staff at hotels and shops are well-versed in the (Americanised) niceties, bidding guests have a nice day and sweet dreams depending on the time of day. A limited number of road and subway signs now bear English translations and taxi drivers generally have at least enough English to ascertain if their passengers are American.

Other steps taken to enhance Korea's reputation as

**Sometimes taxi drivers are very rude - because of language problems**

a tourist destination include streamlining the immigration and customs procedures and government plans to invest funds in improving the country's infrastructure. Sports facilities are also being upgraded and developed, as these are an important part of Korea's tourism message.

Korea itself has a convincing

message for tourists. Depending upon the season, it offers skiing and mountain hiking in national parks; eighteenth-century round old Buddhist temples and palaces; scuba diving, golf and hunting; cherry blossom in springtime and a semi-tropical climate in the southern island of Cheju. It is no longer particularly cheap (except, perhaps, to those wielding yen), a problem KNTC has paid lip service to by producing a book of money-off coupons.

This year Korea will host 300 international meetings in the capital city, in addition to sports and leisure events - such as the underwater photographic championship and international windsurfing contest - across the country.

For the big hotels, the real money spinner is business travellers who are starting to return after a two-year recession-induced slack period. This year the Westin Chosun expects to fill some 80 per cent of its rooms over the year. The average room rate is as much as W110,000, except for the five months' low season.



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